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Legislative Audit Division

State of Montana



Report to the Legislature

December 1995

Financial Audit

For the Fiscal Year Ended June 30, 1995

State of Montana

General Purpose Financial Statements

We issued an unqualified opinion on the General Purpose Financial Statements of the State of Montana, which were prepared by the Department of Administration's Accounting and Management Support Division.

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The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1993 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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December 1995

The Legislative Audit Committee
of the Montana State Legislature:

This financial audit report contains our independent auditor's report on the general purpose financial statements of the state of Montana for the fiscal year ended June 30, 1995. We performed the audit solely to express an opinion on the state's general purpose financial statements. Any findings disclosed by our audit were discussed with appropriate management personnel and will be reported as part of our scheduled biennial audits of state agencies.

All members of the financial-compliance audit staff contributed to this audit. We thank the director of the Department of Administration and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,



Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial Audit

For the Fiscal Year Ended June 30, 1995

State of Montana

General Purpose Financial Statements

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Elected and Administrative Officials

State of Montana

Marc Racicot, Governor

Department of Administration

Lois Menzies, Director

Connie L. Griffith, Administrator
Accounting and Management Support Division

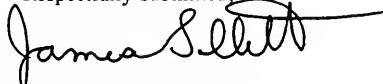
INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general purpose financial statements of the state of Montana, as of June 30, 1995, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which statements reflect total operating revenues, expenditures, and transfers-out of 32.8 percent, 33.2 percent, and 35.8 percent, respectively, in the Enterprise Fund. These statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery is based solely on the report of the other auditor.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana, as of June 30, 1995, and the results of its operations and the cash flows of its proprietary and nonexpendable trust fund types for the year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

October 18, 1995

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STATE OF MONTANA

Combined Balance Sheet

All Fund Types, Account Groups and Discretely Presented Component Units

June 30, 1995

(Expressed in Thousands)

ASSETS/OTHER DEBITS	GOVERNMENTAL FUND TYPES					PROPRIETARY FUND TYPES	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	
Cash/Cash Equivalents (Note 4)	\$ 37,435	\$ 202,478	\$ 38,204	\$ 32,598	\$ 17,879	\$ 29,935	
Receivables (Net of Uncollectibles)	71,111	51,330	6,183	126	6,541	857	
Interfund Loans Receivable (Note 13)	11,269	38,170	-	-	75	-	
Due from Other Governments	3,404	133,395	-	-	-	10	
Due from Primary Government (Note 13)	-	-	-	-	-	-	
Due from Component Units (Note 13)	422	361	10	-	5	823	
Due from Other Funds (Note 13)	35,073	67,696	83	193	188	4,469	
Inventories	1,919	24,000	-	-	9,582	1,572	
Equity in Pooled Investments (Note 4)	-	-	-	-	-	-	
Long-Term Loans/Notes Receivable	-	27,032	33,554	1	29,110	3	
Advances to Other Funds (Note 13)	1,185	210	-	-	-	-	
Investments (Note 4)	-	14,115	1,671	-	12,661	25,120	
Land	-	-	-	-	800	236	
Buildings/Improvements	-	-	-	-	4,404	83	
Equipment	-	-	-	-	5,495	125,252	
Other Fixed Assets	-	-	-	-	246	3	
Construction in Progress	-	-	-	-	146	302	
Accumulated Depreciation	-	-	-	-	(5,549)	(71,192)	
Intangible Assets	-	-	-	-	72	35	
Deferred Charges	-	-	-	-	1,083	-	
Other Assets	1,114	1,148	-	6	3,486	202	
Other Debts							
Amount Available - Debt Service Funds	-	-	-	-	-	-	
Resources to be Provided in Future Years	-	-	-	-	-	-	
TOTAL ASSETS/OTHER DEBITS	\$ 162,932	\$ 559,935	\$ 79,705	\$ 32,924	\$ 86,224	\$ 117,710	
LIABILITIES/EQUITY/OTHER CREDITS							
Liabilities							
Accounts Payable	\$ 65,951	\$ 100,243	\$ 3,721	\$ 2,934	\$ 3,970	\$ 3,629	
Lottery Prizes Payable	-	-	-	-	2,142	-	
Tax Refund Payable	21,484	-	-	-	-	-	
Interfund Loans Payable (Note 13)	-	46,491	-	-	75	345	
Advances from Other Funds (Note 13)	-	1,415	-	-	70	-	
Due to Other Governments	3,334	30,348	-	-	1	-	
Due to Primary Government (Note 13)	-	-	-	-	-	-	
Due to Component Units (Note 13)	162	28,284	-	160	-	15	
Due to Other Funds (Note 13)	22,846	73,193	3,184	85	4,503	2,028	
Deferred Revenue	13,180	30,370	732	-	2,745	48	
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	56	1,056	
Bonds/Notes Payable (Net) (Note 12)	-	-	-	-	39,217	-	
Property Held in Trust	538	1,575	-	-	2,101	97	
Compensated Absences Payable (Note 1)	-	-	-	-	882	2,537	
Estimated Insurance Claims (Note 9)	-	-	-	-	1,682	29,289	
Arbitrage Rebate Tax Payable	-	-	-	-	370	-	
Other Liabilities	1	19	-	-	-	-	
Total Liabilities	\$ 127,496	\$ 311,938	\$ 7,637	\$ 3,179	\$ 57,814	\$ 39,044	
Equity/Other Credits							
Investment in General Fixed/Plant Assets	-	-	-	-	-	-	
Contributed Capital (Note 17)	-	-	-	-	3,490	5,343	
Retained Earnings							
Reserved for Debt Service	-	-	-	-	-	-	
Unreserved	-	-	-	-	24,920	73,323	
Fund Balances							
Reserved for Encumbrances	6,805	37,094	-	-	-	-	
Reserved for Inventories	1,919	24,000	-	-	-	-	
Reserved for Advances to Other Funds (Note 13)	1,185	210	-	-	-	-	
Reserved for Long-Term Loans	-	25,728	-	1	-	-	
Reserved for Debt Service	-	-	72,068	-	-	-	
Reserved for Trusts/Endowments (Note 15)	-	8,000	-	-	-	-	
Reserved for Construction	-	-	-	-	-	-	
Reserved for Retirement Systems	-	-	-	-	-	-	
Unreserved, undesignated	25,527	152,965	-	29,744	-	-	
Total Equity/Other Credits	\$ 35,436	\$ 247,997	\$ 72,068	\$ 29,745	\$ 28,410	\$ 78,666	
TOTAL LIABILITIES/EQUITY/OTHER CREDITS	\$ 162,932	\$ 559,935	\$ 79,705	\$ 32,924	\$ 86,224	\$ 117,710	

The notes to the financial statements are an integral part of this statement

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		COMPONENT UNITS			
	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	PROPRIETARY FUND TYPES	PENSION TRUST FUND	HIGHER EDUCATION FUNDS
\$ 582,476	\$ -	\$ -	-	\$ 51,257	\$ 54,384	\$ 86,036
103,921	-	-	-	29,639	18,221	34,699
108	-	-	-	-	-	1,800
52	-	-	-	-	-	3,322
-	-	-	-	27,615	27	1,537
1,353	-	-	-	-	-	-
30,713	-	-	-	2,150	569	16,367
-	-	-	-	73	-	3,744
1,534,162	-	-	-	-	927,871	332
98,484	-	-	-	341,797	903	26
113	-	-	-	-	-	-
1,017,281	-	-	-	584,093	65,215	31,149
49,424	57,826	-	-	-	35	12,397
277	250,856	-	-	-	158	298,232
105	92,468	-	-	3,468	170	118,729
-	44,356	-	-	-	-	70,549
-	7,257	-	-	-	-	51,579
(184)	-	-	-	(1,240)	(191)	-
3	-	-	-	1,482	125	2,357
-	-	-	-	9,793	-	1,133
6,807	-	-	-	1,718	-	3,793
-	-	72,068	-	-	-	-
-	-	233,032	-	-	-	-
\$ 3,425,095	\$ 452,763	\$ 305,100	\$ 1,051,845	\$ 1,067,487	\$ 737,781	

\$ 5,317	\$ -	\$ -	-	\$ 6,773	\$ 175	\$ 22,796
-	-	-	-	-	-	-
2,711	-	-	-	-	-	1,800
23	-	-	-	-	-	-
205,024	-	-	-	-	3	673
-	-	-	-	1,052	30	1,892
558	-	-	-	-	-	-
34,314	-	-	-	2,089	-	15,259
55	-	-	-	21,749	-	10,608
-	-	1,248	-	-	87	2,247
-	-	262,967	-	589,256	-	117,741
509,817	-	-	-	1,835	46	4,333
85	-	40,850	-	751	35	24,231
-	-	-	-	691,586	-	-
-	-	35	-	209	-	-
3,867	-	-	-	-	-	-
761,771	-	305,100	-	1,315,300	376	201,580

-	452,763	-	-	-	-	455,143
-	-	-	-	11,584	-	-
-	-	-	-	94,082	-	-
-	-	-	-	(369,121)	-	-
-	-	-	-	-	-	1,681
-	-	-	-	-	-	-
23	-	-	-	-	-	-
3,505	-	-	-	-	-	-
-	-	-	-	-	-	593
1,016,950	-	-	-	-	-	28,552
-	-	-	-	-	-	14,530
1,530,754	-	-	-	1,067,111	-	-
112,092	-	-	-	-	-	35,702
2,663,324	452,763	-	(263,455)	1,067,111	536,201	
\$ 3,425,095	\$ 452,763	\$ 305,100	\$ 1,051,845	\$ 1,067,487	\$ 737,781	

STATE OF MONTANA
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 All Governmental Fund Types and Expendable Trust Funds
 For the Fiscal Year Ended June 30, 1995
 (Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL		SPECIAL REVENUE	DEBT SERVICE	EXPENDABLE TRUST
	REVENUES:				
Licenses/Permits	\$ 24,323	\$ 81,786	\$ -	\$ -	\$ -
Taxes					
Natural Resource	22,764	39,943	404	-	-
Individual Income	340,665	1,378	32,910	-	-
Corporate Income	57,918	11,591	6,011	-	-
Property	30	211,425	-	-	-
Fuel	-	162,871	-	-	-
Payroll	-	48,583	-	-	-
Other (Note 1)	62,970	68,004	10,668	2,394	-
Charges for Services/Fines/Forfeits	32,125	36,332	810	514	135
Investment Earnings	16,588	7,367	4,854	458	8,998
Sale of Documents/Mdse /Property	361	16,735	1,891	-	-
Rentals/Leases/Royalties	94	86	-	-	11
Contributions/Premiums	-	3,773	-	-	58,337
Grants/Contracts/Donations	1	8,447	-	-	365
Federal	242	714,190	197	-	6,381
Federal Indirect Cost Recoveries	562	2,040	-	-	-
Other Revenues	274	861	-	-	1,243
Total Revenues	558,917	1,415,412	57,745	3,366	75,470
Intrafund Revenues	(117)	(12,205)	(130)	-	-
Net Revenues	558,800	1,403,207	57,615	3,366	75,470
EXPENDITURES:					
Current					
General Government	83,826	56,676	47	24	-
Public Safety/Corrections	51,199	67,469	-	-	-
Transportation	157	297,551	-	-	-
Health/Social Services	198,681	474,649	-	-	-
Education/Cultural	61,429	430,115	-	-	109
Resource Development/Recreation	33,729	59,492	34	54	31
Economic Development/Assistance	2,413	98,035	-	-	61,771
Debt Service					
Principal Retirement	357	350	66,752	-	-
Interest/Fiscal Charges	2,619	480	15,823	10	-
Capital Outlay	4,444	32,102	17	35,160	129
Total Expenditures	438,854	1,516,919	82,673	35,248	62,040
Intrafund Expenditures	(117)	(12,205)	(130)	-	-
Net Expenditures	438,737	1,504,714	82,543	35,248	62,040
Excess of Rev Over (Under) Expend	120,063	(101,507)	(24,928)	(31,882)	13,430
OTHER FINANCING SOURCES (USES):					
Loan Proceeds	-	3,545	-	-	-
Bond Proceeds	501	2,350	-	32,455	-
Inception of Lease/Installment Contract	577	5	-	-	60
General Fixed Asset Sale Proceeds	104	30	-	-	-
Operating Transfers In (Note 13)	91,525	174,485	75,301	3,179	-
Transfers from Component Units (Note 13)	-	986	317	-	-
Operating Transfers Out (Note 13)	(122,005)	(63,896)	(49,915)	(1,370)	(1,437)
Transfers to Component Units (Note 13)	(96,352)	(65,254)	-	-	-
Total Other Financing Sources (Uses)	(125,650)	52,251	25,703	34,264	(1,377)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	(5,587)	(49,256)	775	2,382	12,053
FUND BALANCES - JULY 1 - as Previously Reported	40,414	296,253	70,378	27,391	103,278
Prior Period Adjustments (Note 3)	(225)	205	(4)	-	221
FUND BALANCES - July 1 - As Restated	40,189	296,458	70,374	27,391	103,499
Increase (Decrease) in Inventories	(250)	2,397	-	-	-
Residual Equity Transfers (Note 13)	1,084	(1,602)	919	(28)	68
FUND BALANCES - JUNE 30	\$ 35,436	\$ 247,997	\$ 72,068	\$ 29,745	\$ 115,620

The notes to the financial statements are an integral part of this statement

STATE OF MONTANA

Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and

Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance

General and Special Revenue Fund Types

For the Fiscal Year Ended June 30, 1995

(Expressed in Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE -	BUDGET	ACTUAL	VARIANCE -
			FAVORABLE (UNFAVORABLE)			(UNFAVORABLE)
REVENUES:						
Licenses/Permits	\$ 22,313	\$ 24,323	\$ 2,010	\$ 75,773	\$ 81,786	\$ 6,013
Taxes						
Natural Resource	24,115	22,764	(1,351)	42,073	39,943	(2,130)
Individual Income	315,080	340,665	25,585	14	1,378	1,364
Corporate Income	55,901	57,918	2,017	8,326	11,591	3,265
Property	360	30	(330)	146,113	211,425	65,312
Fuel	-	-	-	170,218	162,871	(7,347)
Payroll	-	-	-	41,090	48,583	7,493
Other	53,152	62,970	9,818	66,186	68,004	1,818
Charges for Services/Fines/Forfeits	21,535	32,125	10,590	36,279	36,332	53
Investment Earnings	10,683	16,588	5,905	4,238	7,367	3,129
Sale of Documents/Merchandise/Property	258	361	103	26,490	16,735	(9,755)
Rentals/Leases/Royalties	70	94	24	119	86	(33)
Contributions/Premiums	-	-	-	3,586	3,773	187
Grants/Contracts/Donations	-	1	1	9,544	8,447	(1,097)
Federal	200	242	42	772,894	714,190	(58,704)
Federal Indirect Cost Recoveries	28	562	534	1,650	2,040	390
Other Revenues	79	274	195	1,027	861	(166)
Total Revenues	503,774	558,917	55,143	1,405,620	1,415,412	9,792
EXPENDITURES:						
Current						
General Government	87,307	83,440	3,867	94,883	57,546	37,337
Public Safety/Corrections	51,775	50,840	935	75,791	67,554	8,237
Transportation	169	158	11	328,581	304,054	24,527
Health/Social Services	199,659	197,660	1,999	503,396	470,596	32,800
Education/Cultural	62,066	61,376	690	438,912	430,113	8,799
Resource Development/Recreation	33,989	33,687	302	98,353	62,322	36,031
Economic Development/Assistance	2,475	2,425	50	117,065	106,275	10,790
Debt Service						
Principal Retirement	350	350	-	343	343	-
Interest/Fiscal Charges	2,619	2,619	-	480	480	-
Capital Outlay	4,691	4,691	-	32,657	32,473	184
Total Expenditures	445,100	437,246	7,854	1,690,461	1,531,756	158,705
Excess of Rev. Over (Under) Expend	58,674	121,671	62,997	(284,841)	(116,344)	168,497
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	5,065	3,550	(1,515)
Bond Proceeds	-	501	501	2,350	2,350	-
General Fixed Asset Sale Proceeds	94	104	10	17	30	13
Operating Transfers In	107,409	91,203	(16,206)	253,878	230,942	(22,936)
Transfers from Component Units	-	-	-	987	987	-
Operating Transfers Out	(155,842)	(123,832)	32,010	(89,516)	(80,859)	8,657
Transfers to Component Units	(96,352)	(96,352)	-	(65,254)	(65,254)	-
Total Other Financings Sources (Uses)	(144,691)	(128,376)	16,315	107,527	91,746	(15,781)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(86,017)	(6,705)	79,312	(177,314)	(24,598)	152,716
RECONCILIATION OF BUDGETARY/GAAP REPORTING:						
1 Adjust expenditures for encumbrances	-	(722)	(722)	-	14,156	14,156
2 Adjustments for appropriated loans/other nonbudgeted activity	-	1,840	1,840	-	(38,814)	(38,814)
3 Intrafund elimination - Transfers In	-	(367)	(367)	-	(64,741)	(64,741)
4 Intrafund elimination - Transfers Out	-	367	367	-	64,741	64,741
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(86,017)	(5,587)	80,430	(177,314)	(49,256)	128,058
UNRESERVED FUND BALANCES - JULY 1						
Residual Equity Transfers (Note 13)	32,592	32,592	-	221,307	221,307	-
Prior Period Adjustments (Note 3)	1,084	1,084	-	(1,602)	(1,602)	-
Decrease (Increase)	-	(225)	(225)	-	205	205
Encumbrances Reserve	-	(1,288)	(1,288)	-	(7,569)	(7,569)
Advances to Other Funds Reserve	-	(1,065)	(1,065)	-	(190)	(190)
Long-Term Loans Reserve	-	16	16	-	(1,930)	(1,930)
Trusts/Endowments Reserve (Note 15)	-	-	-	-	(8,000)	(8,000)
UNRESERVED FUND BALANCES - JUNE 30	\$ (52,341)	\$ 25,527	\$ 77,868	\$ 42,391	\$ 152,965	\$ 110,574

The notes to the financial statements are an integral part of this statement

STATE OF MONTANA

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances

All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1995

(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES		COMPONENT UNITS	
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PENSION TRUST	PROPRIETARY FUND TYPES	PENSION TRUST FUND
OPERATING REVENUES:						
Charges for Services	\$ 81,148	\$ 58,603	\$ 5,591	\$ -	\$ 323	\$ -
Investment Earnings	1,262	4,276	70,463	101,011	37,457	72,309
Contributions/Premiums	2,043	68,372	-	103,620	153,761	76,983
Grants/Contracts/Donations	12	-	-	-	-	-
Taxes	10,259	-	23,836	-	-	-
Rentals/Leases/Royalties	-	-	22,393	-	-	-
Grants/Contracts/Donations	-	-	-	-	-	-
Other Operating Revenues	6,779	80	40	-	26,603	-
Total Operating Revenues	101,503	131,331	122,323	204,631	218,144	149,292
Intrafund Revenues	(1,001)	(1)	-	(29)	-	-
Net Operating Revenues	100,502	131,330	122,323	204,602	218,144	149,292
OPERATING EXPENSES:						
Personal Services	8,604	19,984	-	541	8,256	325
Contractual Services	8,049	9,449	-	298	3,653	135
Supplies/Materials	30,770	12,861	-	17	2,351	11
Benefits	1,338	60,978	-	97,673	79,006	78,582
Refunds	-	-	-	10,450	-	3,373
Depreciation	610	8,171	-	20	391	20
Amortization	6	119	-	3	272	28
Utilities/Rent	984	4,064	-	34	167	46
Communications	1,000	8,513	-	48	503	36
Travel	212	311	-	16	169	11
Repair/Maintenance	415	4,304	-	3	157	16
Lottery Prize Payments	16,152	-	-	-	-	-
Interest Expense	2,876	142	-	-	42,087	8
Arbitrage Rebate Tax	78	-	-	-	126	-
Other Operating Expenses	3,268	1,217	34	117	3,059	9
Total Operating Expenses	74,362	130,113	34	109,220	140,217	82,600
Intrafund Expenses	(1,001)	(1)	-	(29)	-	-
Net Operating Expenses	73,361	130,112	34	109,191	140,217	82,600
Operating Income (Loss)	27,141	1,218	122,289	95,411	77,927	66,692
NONOPERATING REVENUES (EXPENSES):						
Gain (Loss) Sale of Fixed Assets	(55)	616	-	(21)	(6)	-
Increase (Decrease) Value of Livestock	13	-	-	-	-	-
Federal Indirect Cost Recoveries	-	3,479	-	-	-	-
Total Nonoperating Revenues (Expenses)	(42)	4,095	-	(21)	(6)	-
Income (Loss) Before Operating Transfers	27,099	5,313	122,289	95,390	77,921	66,692
Operating Transfers In (Note 13)	216	896	1,431	-	(10)	-
Transfers from Primary Government (Note 13)	-	-	-	-	50,091	-
Transfers from Component Units (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	(24,003)	(51)	(87,578)	-	-	-
Transfers to Primary Government (Note 13)	-	-	-	-	(1,303)	-
Net Income Before Cum Eff of Chg in Acctg Prin	3,312	6,158	36,142	95,390	126,699	66,692
Cum Eff of Chg in Acctg Prin	-	-	-	(1,417)	-	755
Net Income (Loss)	3,312	6,158	36,142	93,973	126,699	67,447
RETAINED EARNINGS/FUND BALANCES - July 1						
As Previously Reported	21,933	66,474	980,815	1,436,775	(401,727)	999,664
Prior Period Adjustments (Note 3)	97	710	(7)	6	(11)	-
RETAINED EARNINGS/FUND BALANCES - July 1						
As Restated	22,030	67,184	980,808	1,436,781	(401,738)	999,664
Residual Equity Transfers (Note 13)	(422)	(19)	-	-	-	-
RETAINED EARNINGS/FUND BALANCES - JUNE 30	\$ 24,920	\$ 73,323	\$ 1,016,950	\$ 1,530,754	\$ (275,039)	\$ 1,067,111

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA

Combined Statement of Cash Flows

All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1995

(Expressed in Thousands)

	PROPRIETARY FUND TYPES		COMPONENT UNITS	
	INTERNAL ENTERPRISE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Sales and Services	\$ 83,033	\$ 126,904	\$ 5,514	\$ 181,641
Collections of Principal and Interest on Loans	8,948	-	-	70,223
Cash Payments for Loans	(6,318)	-	-	(82,551)
Payments to Suppliers for Goods and Services	(43,674)	(43,532)	-	(8,917)
Payments to Employees	(8,454)	(19,737)	-	(8,051)
Grant Receipts	-	3,314	-	-
Grant Payments	-	-	(22)	-
Cash Payments for Claims	(1,304)	(58,614)	-	(99,899)
Collections of Notes Receivable	-	-	-	(26)
Cash Payments for Prizes	(16,368)	-	-	-
Transfers from Other Funds	-	97	-	-
Scholarship/Fellowship Payments	-	-	(6)	-
Other Operating Revenues	3,696	29	39	1,591
Net Cash Provided by (Used for) Operating Activities	19,559	8,461	5,525	54,011
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	(8,961)	-	-	(125,377)
Proceeds from Issuance of Bonds and Notes	647	-	-	53,236
Payment of Bond Issuance Costs	-	-	-	(799)
Collection of Taxes	10,259	-	19,090	-
Transfers to Other Funds	(24,029)	(51)	(88,639)	638
Transfers to Primary Government	-	-	-	(2,625)
Transfers from Other Funds	216	792	1,454	104
Transfers from Primary Government	-	-	-	40,717
Cash Payments for Loans	-	(30)	-	-
Proceeds from Interfund Loans	(35)	360	-	-
Interfund Loan Payments	-	(235)	(2,945)	-
Residual Equity Transfers to Other Funds	(422)	(19)	-	-
Contributed Capital Transfers from Other Funds	-	-	1,113	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(22,325)	1,930	(71,040)	(34,106)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Fixed Assets	(811)	(10,825)	-	(3,449)
Proceeds from Sale of Fixed Assets	81	980	-	434
Principal and Interest Payments on Bonds and Notes	(7)	(1,294)	-	-
Net Cash Used for Capital and Related Financing Activities	(737)	(11,139)	-	(3,015)
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of Investments	(9,179)	(20,805)	(189,018)	(1,226,226)
Proceeds from Sales of Maturities of Investments	10,426	17,721	165,355	1,179,156
Interest and Dividends on Investments	859	2,461	73,027	34,751
Arbitrage Rebate Tax	(3)	-	-	(187)
Collections of Principal on Loans	-	-	9,586	-
Cash Payments for Loans	-	-	(25,687)	-
Collection of Rents/Leases/Royalties	-	-	22,419	-
Net Cash Provided by (Used for) Investing Activities	2,103	(623)	55,682	(12,506)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,400)	(1,371)	(9,833)	4,384
Cash and Cash Equivalents, July 1	19,279	31,306	74,377	46,873
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 17,879	\$ 29,935	\$ 64,544	\$ 51,257

The notes to the financial statements are an integral part of this statement

	PROPRIETARY FUND TYPES		COMPONENT UNITS	
	INTERNAL ENTERPRISE SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 27,141	\$ 1,218	\$ 122,289	\$ 77,927
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation	610	8,171	-	391
Amortization	6	119	-	272
Taxes	(10,259)	-	(23,836)	-
Interest Expense	2,876	144	-	42,087
Interest on Investments	(1,262)	(2,598)	(70,463)	(37,456)
Federal Indirect Cost Recoveries	-	3,479	-	-
Arbitrage Rebate Tax	78	-	-	126
Operating Transfers in	-	97	-	-
Rentals/Leases/Royalties	-	-	(22,393)	-
Change in Assets and Liabilities				
Decr (Incr) in Accounts Receivable	(448)	140	-	38,567
Decr (Incr) in Due From Other Governments	-	(5)	-	-
Decr (Incr) in Due From Other Funds	(26)	(604)	(77)	(454)
Decr (Incr) in Due From Primary Government	-	-	-	146
Decr (Incr) in Due From Component Units	1	(147)	-	-
Decr (Incr) in Inventories	393	(1,261)	-	(39)
Decr (Incr) in Intangible Assets	(5)	-	-	-
Decr (Incr) in Long-term Loans/Notes Receivable	135	-	-	(38,208)
Decr (Incr) in Other Assets	(235)	70	-	6,839
Incr (Decr) in Accounts Payable	601	(1,739)	5	515
Incr (Decr) in Lottery Prizes Payable	52	-	-	-
Incr (Decr) in Due to Other Funds	(13)	(1,148)	-	781
Incr (Decr) in Due to Other Governments	(9)	-	-	-
Incr (Decr) in Due to Primary Government	-	-	-	(128)
Incr (Decr) in Due to Component Units	-	10	-	-
Incr (Decr) in Deferred Revenue	(136)	(74)	-	(2,351)
Incr (Decr) in Bonds/Notes Payable	(68)	(13)	-	-
Incr (Decr) in Property Held in Trust	6	(153)	-	(13,973)
Incr (Decr) in Compensated Absences Payable	115	203	-	92
Incr (Decr) in Estimated Insurance Claims	6	2,552	-	(21,123)
Nel Cash Provided by (Used For) Operating Activities				
	\$ 19,559	\$ 8,461	\$ 5,525	\$ 54,011

SCHEDULE OF NONCASH TRANSACTIONS:

Fixed Asset Acquisitions from Capital Leases	\$ 56	\$ 273	\$ -	\$ -
Asset Acquisitions from Contributed Capital				
Capital Transfers from Other Funds	238	2,211	-	-
Asset Disposals from Contributed Capital	-	(2,495)	-	-
Total Noncash Transactions	\$ 294	\$ (11)	\$ -	\$ -

RECONCILIATION FOR NONEXPENDABLE TRUST:

Cash and Cash Equivalents, June 30	\$ 64,544
Cash and Cash Equivalents, Expendable Trust, Pension Trust and Agency	\$ 517,932
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency	\$ 582,476

STATE OF MONTANA
 Combining Balance Sheet
 Component Units - Proprietary Fund Types
 June 30, 1995
 (Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
ASSETS:					
Cash/Cash Equivalents	\$ 3,112	\$ 391	\$ 40,767	\$ 6,967	\$ 51,257
Receivables (Net)	4,660	108	24,566	305	29,639
Due from Primary Government (Note 13)	1	-	10	27,604	27,615
Due from Other Funds (Note 13)	-	-	2,042	108	2,150
Inventories	-	-	73	-	73
Long-Term Loans/Notes Receivable	341,501	295	-	-	341,797
Investments (Note 4)	154,542	200	418,542	10,509	554,093
Equipment	222	13	3,233	-	3,455
Accumulated Depreciation	(149)	(9)	(1,082)	-	(1,240)
Intangible Assets	10	-	1,472	-	1,482
Deferred Charges	6,006	-	-	3,787	9,793
Other Assets	29	-	1,625	64	1,718
TOTAL ASSETS	\$ 509,934	\$ 999	\$ 491,248	\$ 49,664	\$ 1,051,845
LIABILITIES/FUND EQUITY:					
Liabilities					
Accounts Payable	\$ 5,395	\$ 2	\$ 579	\$ 797	\$ 6,773
Due to Primary Government (Note 13)	40	5	893	114	1,052
Due to Other Funds (Note 13)	6	-	109	1,974	2,089
Deferred Revenue	-	1	21,748	-	21,749
Bonds/Notes Payable (Net) (Note 12)	424,427	-	-	164,829	589,256
Property Held in Trust	-	-	1,835	-	1,835
Compensated Absences Payable	28	18	650	55	751
Estimated Insurance Claims (Note 9)	-	-	395,837	295,749	691,566
Arbitrage Rebate Tax Payable	125	-	-	64	209
Total Liabilities	430,021	26	421,651	463,602	1,315,300
Fund Equity					
Contributed Capital (Note 17)	-	-	11,584	-	11,584
Retained Earnings					
Reserved for Debt Service (Note 15)	79,913	-	-	14,169	94,082
Unreserved	-	973	56,013	(428,107)	(369,121)
Total Fund Equity	79,913	973	69,597	(413,938)	(263,455)
TOTAL LIABILITIES/FUND EQUITY	\$ 509,934	\$ 999	\$ 491,248	\$ 49,664	\$ 1,051,845

The notes to the financial statements are an integral part of this statement

STATE OF MONTANA

Combining Statement of Revenues, Expenses and Changes in Retained Earnings

Component Units - Proprietary Fund Types

For the Fiscal Year Ended June 30, 1995

(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
OPERATING REVENUES:					
Charges for Services	\$ 81	212	\$ 30	\$ 323	
Investment Earnings	12,523	40	23,963	931	37,457
Contributions/Premiums	-	-	152,834	927	153,761
Other Operating Revenues	26,367	28	205	3	26,603
Total Operating Revenues	38,971	280	177,032	1,861	218,144
OPERATING EXPENSES:					
Personal Services	385	55	6,759	1,057	8,256
Contractual Services	379	47	2,903	324	3,653
Supplies/Materials	20	4	2,293	34	2,351
Benefits	-	-	99,986	(20,980)	79,006
Depreciation	18	1	372	-	391
Amortization	10	-	262	-	272
Utilities/Rent	31	-	140	16	187
Communications	28	4	409	62	503
Travel	27	11	121	10	169
Repair/Maintenance	38	-	107	12	157
Interest Expense	31,434	-	-	10,653	42,087
Arbitrage Rebate Tax	77	-	-	49	126
Other Operating Expenses	1,220	12	(119)	1,946	3,059
Total Operating Expenses	33,667	134	113,233	(6,817)	140,217
Operating Income (Loss)	5,304	146	63,799	8,678	77,927
NONOPERATING REVENUES (EXPENSES):					
Gain (Loss) Sale of Fixed Assets	(1)	-	(5)	-	(6)
Transfers from Primary Government (Note 13)	-	-	-	50,091	50,091
Transfers to Primary Government (Note 13)	-	-	-	(1,303)	(1,303)
Total Nonoperating Revenues (Expenses)	(1)	-	(5)	48,788	48,782
Income (Loss) Before Operating Transfers	5,303	146	63,794	57,466	126,709
Operating Transfers In	-	-	-	(10)	(10)
Net Income (Loss)	5,303	146	63,794	57,456	126,699
RETAINED EARNINGS - JULY 1 -					
As Previously Reported	74,610	827	(5,770)	(471,394)	(401,727)
Prior Period Adjustments (Note 3)	-	-	(11)	-	(11)
RETAINED EARNINGS - JULY 1- As Restated	74,610	827	(5,781)	(471,394)	(401,738)
RETAINED EARNINGS - JUNE 30	\$ 79,913	\$ 973	\$ 58,013	\$ (413,938)	\$ (275,039)

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Cash Flows
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1995
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Sales and Services	\$ 64	\$ 229	\$ 181,277	\$ 71	\$ 181,641
Collections of Principal and Interest on Loans	70,127	96	-	-	70,223
Cash Payments for Loans	(82,164)	(387)	-	-	(82,551)
Payments to Suppliers for Goods and Services	(1,878)	(82)	(6,111)	(846)	(8,917)
Payments to Employees	(393)	(52)	(6,602)	(1,004)	(8,051)
Cash Payments for Claims	-	-	(77,185)	(22,714)	(99,899)
Collection of Notes Receivable	-	-	-	(26)	(26)
Other Operating Revenues	1,382	-	205	4	1,591
Net Cash Provided by (Used for) Operating Activities	(12,862)	(196)	91,584	(24,515)	54,011
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(112,716)	-	-	(12,661)	(125,377)
Proceeds from Issuance of Bonds and Notes	53,236	-	-	-	53,236
Payment of Bond Issuance Costs	(799)	-	-	-	(799)
Transfers to Other Funds	-	-	-	638	638
Transfers from Other Funds	-	-	-	104	104
Transfers to Primary Government	-	-	-	(2,625)	(2,625)
Transfers from Primary Government	-	-	-	40,717	40,717
Net Cash Provided by (Used for) Noncapital Financing Activities	(60,279)	-	-	26,173	(34,106)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(53)	-	(3,396)	-	(3,449)
Proceeds from Sale of Fixed Assets	-	-	434	-	434
Net Cash Used for Capital and Related Financing Activities	(53)	-	(2,962)	-	(3,015)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(993,190)	(200)	(231,745)	(1,091)	(1,226,226)
Proceeds from Sales or Maturity of Investments	1,055,714	200	122,210	1,032	1,179,156
Interest and Dividends on Investments	11,385	36	22,357	973	34,751
Arbitrage Rebate Tax	(187)	-	-	-	(187)
Net Cash Provided by (Used for) Investing Activities	73,722	36	(87,178)	914	(12,506)
Net increase (Decrease) in Cash and Cash Equivalents	528	(160)	1,444	2,572	4,384
Cash and Cash Equivalents, July 1	2,584	551	39,323	4,415	46,873
Cash and Cash Equivalents, June 30	\$ 3,112	\$ 391	\$ 40,767	\$ 6,987	\$ 51,257

The notes to the financial statements are an integral part of this statement.

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)					
	\$ 5,304	\$ 146	\$ 63,799	\$ 8,678	\$ 77,927
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	18	1	372	-	391
Amortization	10	-	262	-	272
Interest Expense	31,434	-	-	10,653	42,087
Interest on Investments	(12,522)	(40)	(23,963)	(931)	(37,456)
Arbitrage Rebate Tax	77	-	-	49	126
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	920	(86)	37,643	90	38,567
Decr (Incr) in Due From Other Funds	-	-	(347)	(107)	(454)
Decr (Incr) in Due From Primary Government	-	-	146	-	146
Decr (Incr) in Inventories	-	-	(39)	-	(39)
Decr (Incr) in Long-Term Loans/Notes Receivable	(37,993)	(215)	-	-	(38,208)
Decr (Incr) in Other Assets	(27)	1	6,929	(64)	6,839
Incr (Decr) in Accounts Payable	(4)	2	474	43	515
Incr (Decr) in Due to Other Funds	-	(1)	109	673	781
Incr (Decr) in Due to Primary Government	(54)	(5)	(183)	114	(128)
Incr (Decr) in Deferred Revenue	(9)	-	(2,342)	-	(2,351)
Incr (Decr) in Property Held in Trust	-	-	(13,973)	-	(13,973)
Incr (Decr) in Compensated Absences Payable	(16)	1	83	24	92
Incr (Decr) in Estimated Insurance Claims	-	-	22,614	(43,737)	(21,123)
Net Cash Provided by (Used for) Operating Activities	\$ (12,862)	\$ (196)	\$ 91,584	\$ (24,515)	\$ 54,011

STATE OF MONTANA
 Combining Balance Sheet
 Component Units - All Higher Education Funds
 June 30, 1995
 (Expressed in Thousands)

CURRENT FUNDS					
UNRESTRICTED					
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED	
ASSETS:					
Cash/Cash Equivalents	\$ 13,446	\$ 17,458	\$ 10,058	\$ 3,079	
Receivables (Net)	2,030	371	747	6,818	
Interfund Loans Receivable (Note 13)	300	1,500	-	-	
Due from Other Governments	3	3	-	3,316	
Due from Primary Government (Note 13)	13	108	222	735	
Due from Other Funds (Note 13)	4,989	3,892	843	332	
Inventories	81	1,489	2,174	-	
Equity in Pooled Investments	-	-	-	-	
Long-Term Notes/Loans Receivable	-	-	-	-	
Investments (Note 4)	-	-	-	-	
Land	-	-	-	-	
Buildings/Improvements	-	-	-	-	
Equipment	-	-	-	-	
Other Fixed Assets	-	-	-	-	
Construction in Progress	-	-	-	-	
Intangible Assets	-	-	-	-	
Deferred Charges	-	-	-	-	
Other Assets	2,172	1,052	21	226	
TOTAL ASSETS	\$ 23,034	\$ 25,873	\$ 14,065	\$ 14,506	
LIABILITIES/FUND BALANCES:					
Liabilities					
Accounts Payable	\$ 10,652	\$ 3,039	\$ 1,366	\$ 2,601	
Interfund Loans Payable (Note 13)	-	-	-	1,800	
Due to Other Governments	271	14	-	80	
Due to Primary Government (Note 13)	677	338	25	22	
Due to Other Funds (Note 13)	3,892	2,902	1,880	3,557	
Deferred Revenue	4,037	1,719	726	3,957	
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	
Bonds/Notes Payable (Note 12)	201	8	4	-	
Property Held in Trust	149	17	359	4	
Compensated Absences Payable (Note 1)	18,673	3,940	1,508	110	
Total Liabilities	38,552	11,977	5,868	12,131	
Fund Balances					
Net Investment in Plant	-	-	-	-	
Reserved For					
Encumbrances	1,544	42	-	24	
Debt Service	-	-	-	-	
Student Loans/Endowments	-	-	-	-	
Construction	-	-	-	-	
Unreserved	(17,062)	13,854	8,197	2,351	
Total Fund Balances	(15,518)	13,896	8,197	2,375	
TOTAL LIABILITIES/FUND BALANCES	\$ 23,034	\$ 25,873	\$ 14,065	\$ 14,506	

The notes to the financial statements are an integral part of this statement

FIDUCIARY FUNDS

PLANT FUNDS

STUDENT LOANS	ENDOWMENTS	AGENCY	UNEXPENDED	RENEWAL AND REPLACEMENT		INVESTMENT IN PLANT	TOTALS
				RETIREMENT OF INDEBTEDNESS			
\$ 2,906	\$ 3,372	\$ 2,345	\$ 16,965	\$ 11,720	\$ 4,687	-	\$ 86,036
23,291	1	296	433	80	632	-	34,699
-	-	-	-	-	-	-	1,800
-	-	-	-	-	-	-	3,322
1	-	91	126	97	144	-	1,537
13	-	4,816	120	525	837	-	16,367
-	-	-	-	-	-	-	3,744
-	290	42	-	-	-	-	332
-	-	-	26	-	-	-	26
-	1,437	-	26,357	2,745	610	-	31,149
-	-	-	-	-	-	12,397	12,397
-	-	-	-	-	-	298,232	298,232
-	-	-	-	-	-	118,729	118,729
-	-	-	-	-	-	70,549	70,549
-	-	-	27,803	1,339	-	22,437	51,579
-	-	-	-	-	-	2,357	2,357
-	-	-	-	-	1,133	-	1,133
-	-	258	64	-	-	-	3,793
\$ 26,211	\$ 5,100	\$ 7,848	\$ 71,894	\$ 16,506	\$ 8,043	\$ 524,701	\$ 737,781
\$ 46	\$ 735	\$ 3,042	\$ 555	\$ 760	\$ 22,796		
-	-	-	-	-	-	1,800	
-	308	-	-	-	-	673	
-	804	22	4	-	-	1,892	
118	2,197	282	251	180	-	15,259	
-	-	54	75	40	-	10,608	
-	-	-	-	-	-	2,247	
-	-	47,959	870	1,388	67,311	117,741	
-	3,804	-	-	-	-	4,333	
-	-	-	-	-	-	24,231	
164	-	7,848	51,359	1,755	2,368	69,558	201,580
-	-	-	-	-	-	455,143	455,143
-	-	58	13	-	-	1,681	
-	-	-	-	593	-	593	
24,372	4,180	-	-	-	-	28,552	
-	-	11,294	3,236	-	-	14,530	
1,675	920	-	9,183	11,502	5,082	-	35,702
26,047	5,100	-	20,535	14,751	5,675	455,143	536,201
\$ 26,211	\$ 5,100	\$ 7,848	\$ 71,894	\$ 16,506	\$ 8,043	\$ 524,701	\$ 737,781

STATE OF MONTANA
 Statement of Changes in Fund Balance
 Component Units - All Higher Education Funds
 For the Fiscal Year Ended June 30, 1995
 (Expressed in Thousands)

CURRENT FUNDS					
UNRESTRICTED					
	GENERAL	OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES/OTHER ADDITIONS:					
Tuition/Fees	\$ 69,388	\$ 9,671	\$ 8,275	\$ -	\$ 67,990
Federal Grants/Contracts	4,314	50	-	-	-
State Grants/Contracts	-	316	-	-	7,322
Local Grants/Contracts	-	-	-	-	601
Private Gifts/Grants/Donations	-	583	1	14,195	1
Endowment Income	-	-	-	-	-
Sales/Services-Educational Activities	790	1,532	1	62	-
Sales/Services-Designated/Auxiliary Enterprises	3	19,194	44,433	80	-
Indirect Costs Recovered	272	7,131	-	-	-
Investment Earnings	137	90	766	250	-
Gains - Investment Transactions	-	-	-	-	-
Acquisition of Long-Lived Assets	-	-	-	-	-
Retirement of Indebtedness	-	-	-	-	-
Other Revenues/Additions	163	2,409	766	934	-
Total Revenues/Other Additions	75,067	40,976	54,242	91,435	-
Intrafund Revenues/Other Additions	(60)	(2)	-	-	(339)
Net Revenues/Other Additions	75,007	40,974	54,242	91,096	-
EXPENDITURES/OTHER DEDUCTIONS:					
Instruction	90,189	4,443	-	5,004	-
Research	11,087	5,256	-	31,259	-
Public Service	5,824	4,256	-	14,282	-
Academic Support	15,470	8,727	-	1,928	-
Student Services	14,620	9,905	-	3,461	-
Institutional Support	16,317	1,710	-	417	-
Independent Operations	1,784	-	-	-	-
Scholarships/Fellowships	5,950	300	-	29,431	-
Auxiliary Enterprises	-	11	43,595	93	-
Operation/Maintenance of Plant	19,518	(67)	-	60	-
Expenditure for Plant	-	-	-	-	-
Debt Services	153	242	114	23	-
Capital Outlay	5,418	3,288	191	4,466	-
Disposal of Long-Lived Assets	-	-	-	-	-
Debt Incurred	-	-	-	-	-
Other Expenditures/Deductions	507	288	80	87	-
Total Expenditures/Other Deductions	186,837	38,359	43,980	90,511	-
Intrafund Expenditures/Other Deductions	(60)	(2)	-	-	(339)
Net Expenditures/Other Deductions	186,777	38,357	43,980	90,172	-
TRANSFERS IN (OUT)/OTHER ADDITIONS (DEDUCTIONS):					
Transfers from State General Fund	96,292	-	-	6	-
Mileage Transfers	15,163	-	-	-	-
Mandatory Transfers	990	(422)	(7,196)	7	-
Nonmandatory Transfers	(912)	(1,181)	(1,464)	(900)	-
Other Transfers	-	-	197	-	-
Total Transfers In (Out) (Note 13)	111,533	(1,603)	(8,463)	(887)	-
Move Equity to Investment in Plant	-	-	-	-	-
Loan Proceeds	-	1	-	-	-
Bond Proceeds	-	-	-	-	-
Gain (Loss) on Debt Extinguishment	-	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	111,533	(1,602)	(8,463)	(887)	-
Net Increase (Decrease) in Fund Balances	(237)	1,015	1,799	37	-
FUND BALANCES - July 1 - As Previously Reported					
Prior Period Adjustments (Note 3)	(15,279)	12,943	6,478	2,334	-
FUND BALANCES - July 1 - As Restated					
Residual Equity Transfers (Note 13)	(15,281)	12,943	6,478	2,339	-
FUND BALANCES - June 30					
	\$ (15,518)	\$ 13,896	\$ 8,197	\$ 2,375	\$

The notes to the financial statements are an integral part of this statement

FIDUCIARY FUNDS

PLANT FUNDS

STUDENT LOANS	ENDOWMENTS	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
\$ 832		\$ 1,962	\$ 1,222	\$ 2,451	\$ -
139		-	5	23	-
-		-	-	-	-
77	237	204	85	-	-
-	98	-	-	-	-
-	-	-	-	-	-
-	-	64	57	-	-
367	15	2,503	564	414	-
-	-	-	-	-	-
-	-	-	-	-	45,050
-	-	-	-	-	5,883
470	-	1,181	114	1,142	-
1,885	350	5,914	2,047	4,030	50,933
-	-	(20)	(37)	-	-
1,885	350	5,894	2,010	4,030	50,933
-	-	-	-	-	-
-	-	43	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
41	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,693	2,639	23	-
-	-	1,029	161	9,999	-
-	-	383	2,696	-	-
-	-	-	-	-	8,184
-	-	-	-	-	3,275
400	-	-	-	-	-
441	-	3,148	5,496	10,022	11,459
-	-	(20)	(37)	-	-
441	-	3,128	5,459	10,022	11,459
-	-	-	-	-	-
-	6	26	22	-	-
12	-	(2,438)	443	9,790	-
10	941	897	6,860	(3,838)	-
-	-	674	29	733	-
22	947	(841)	7,354	6,685	-
-	-	(115)	(1,149)	-	-
-	-	410	-	-	-
-	-	-	-	41	-
-	-	-	-	-	-
22	947	(546)	6,205	6,726	-
1,466	1,297	2,220	2,756	734	39,474
24,581	3,254	18,315	11,852	4,941	415,669
-	549	-	-	-	-
24,581	3,803	18,315	11,852	4,941	415,669
-	-	-	143	-	-
\$ 26,047	\$ 5,100	\$ 20,535	\$ 14,751	\$ 5,675	\$ 455,143

STATE OF MONTANA

Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes

Component Units - Higher Education Fund Type

For the Fiscal Year Ended June 30, 1995

(Expressed in Thousands)

CURRENT FUNDS

UNRESTRICTED

GENERAL
OPERATING DESIGNATED AUXILIARY RESTRICTED

REVENUES:

Tuition/Fees	\$ 69,388	\$ 9,671	\$ 8,275	\$ 67,990
Federal Grants/Contracts	4,314	50	-	67,990
State Grants/Contracts	-	316	-	7,322
Local Grants/Contracts	-	-	-	601
Private Gifts/Grants/Donations	-	583	1	14,195
Endowment Income	-	-	-	1
Sales/Services-Educational Activities	790	1,532	1	62
Sales/Services-Designated/Auxiliary Enterprises	3	19,194	44,433	80
Indirect Costs Recovered	272	7,131	-	-
Investment Earnings	137	90	766	250
Other Revenues	163	2,409	766	934
Total Revenues	75,067	40,976	54,242	91,435
Intrafund Revenues	(60)	(2)	-	(339)
Net Revenues	75,007	40,974	54,242	91,096

EXPENDITURES:

Educational and General				
Instruction	90,189	4,443	-	5,004
Research	11,087	5,256	-	31,259
Public Service	5,824	4,256	-	14,282
Academic Support	15,470	8,727	-	1,928
Student Services	14,620	9,905	-	3,461
Institutional Support	16,317	1,710	-	417
Scholarships/Fellowships	5,950	300	-	29,431
Operation/Maintenance of Plant	19,518	(67)	-	60
Other Expenditures	507	288	80	87
Total Educational and General Expenditures	179,482	34,818	80	85,929
Intrafund Expenditures	(60)	(2)	-	(339)
Net Educational and General Expenditures	179,422	34,816	80	85,590
Auxiliary Enterprises	-	11	43,595	93
Independent Operations	1,784	-	-	-
Debt Services	153	242	114	23
Capital Outlay	5,418	3,288	191	4,466
Total Expenditures	186,777	38,357	43,980	90,172

TRANSFERS IN (OUT):

Transfers from State General Fund	96,292	-	-	6
Milage Transfers	15,163	-	-	-
Mandatory Transfers	990	(422)	(7,196)	7
Nonmandatory Transfers	(912)	(1,181)	(1,464)	(900)
Other Transfers	-	-	197	-
Total Transfers In (Out) (Note 13)	111,533	(1,603)	(8,463)	(887)

OTHER ADDITIONS (DEDUCTIONS):

Loan Proceeds	-	1	-	-
Total Other Additions (Deductions)	-	1	-	-
Net Increase (Decrease) in Fund Balances	\$ (237)	\$ 1,015	\$ 1,799	\$ 37

The notes to the financial statements are an integral part of this statement

STATE OF MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

A. Reporting Entity - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The Component Units columns of the combined financial statements include the financial data of these entities:

Housing Authority (Proprietary Fund Type) - This Authority is a quasi-judicial board, consisting of seven members appointed by the Governor, created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975,000,000. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor and its report is issued under separate cover.

Health Facilities Authority (Proprietary Fund Type) - This Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited by the Legislative Auditor every two years and its report is issued under separate cover.

State Compensation Insurance Fund (New and Old) (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a five member board appointed by the Governor. The Fund provides workers' compensation insurance. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990, and is financed by a .5 percent tax on each employer as well as a .2 percent tax on employee wages and net income of self-employed persons. Administrative operations and budgets are reviewed by the Governor and the Legislature. The Fund is audited annually by the Legislative Auditor and its report is issued under separate cover.

Teachers' Retirement System (Pension Trust Fund Type) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers' Retirement Division are paid from interest earnings of the fund. The system is funded from employer and employee contributions and interest earnings. The system is audited annually by the Legislative Auditor and its report is issued under separate cover.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana, the Colleges of Technology at Helena and Missoula and the Division of Technology at Butte; and Montana State University and the units under it including Montana State University - Billings, Montana State University - Northern, and the Colleges of Technology located in Billings and Great Falls. All units are funded through State appropriations, tuition, federal grants, and private donations and grants. The units are audited by the Legislative Auditor every two years and their reports are issued under separate cover.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; and both (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 19). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General and State Special Revenue Funds.

B. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

GOVERNMENTAL FUNDS

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; and (4) Agency Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS

Current Funds

Unrestricted

General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for moneys which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for moneys where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for moneys where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

C. Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a spending or "financial flow" measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds and Expendable Trust Funds. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 1996. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

- (1) principal and interest on long-term debt is recognized when due;
- (2) prepayments are accounted for as expenditures in the period of acquisition; and
- (3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust and Nonexpendable Trust Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; student tuition and fees are fully recognized in the fiscal year in which the related courses or activities are principally conducted. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

D. Cash/Cash Equivalents - For all funds, except the Housing Authority in the Component Unit Proprietary Fund, cash and cash equivalents consist of cash deposits, cash invested in the Short-Term Investment Pool (STIP) and short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit (See Note 4)

E. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1995, is \$16.67 million.

F. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources."

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

G. Investments - In accordance with the statutorily mandated "Prudent Expert Principle", the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. All investments, except the deferred compensation plan investments, are reported at cost or amortized cost in the balance sheet. The deferred compensation plan investments are carried at market value. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

H. Deferred Charges - Unamortized bond issuance costs are reported in this category.

I. Deferred Revenue - Deferred revenues are those for which asset recognition criteria have been met but for which revenue recognition criteria have not been met.

J. Compensated Absences - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 1995, 1,022 hours were contributed to the sick leave pool and 1,110 hours were withdrawn leaving a balance of 4,603 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded in the current unrestricted funds as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

K. Encumbrances - For budget control purposes, the State utilizes encumbrance accounting, under which purchase orders, contracts and other commitments are recorded as expenditures and liabilities in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances for subsequent year expenditures.

L. Fund Balance/Retained Earnings Reserves - Portions of fund equity are reported as "reserved" to indicate (1) amounts not available for expenditure, such as equity represented by inventories; and (2) amounts legally segregated for a specific future use, such as those pledged for debt service and retirement benefits or legally-binding contractual agreements.

M. Property Taxes - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in Receivables (Net of Uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due.

Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

N. Other Taxes - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
Video Gaming	\$10,375	\$20,660	\$ -	\$ -
Insurance Premium	20,571	8,524	-	-
University System Millage	-	14,217	-	-
Cigarette/Tobacco	-	1,529	10,668	2,394
Inheritance/Estate	19,019	-	-	-
Accommodations	112	8,479	-	-
Alcoholic Beverage	2,108	2,479	-	-
Miscellaneous	<u>10,785</u>	<u>12,116</u>	<u>-</u>	<u>-</u>
TOTAL OTHER TAXES	<u>\$62,970</u>	<u>\$68,004</u>	<u>\$10,668</u>	<u>\$2,394</u>

2. BUDGETARY REPORTING

A. State Budget Process - Montana is a biennial budget state. The constitution requires that legislative appropriations not exceed available revenues. The legislature only utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue, Capital Projects, Enterprise and Internal Service Funds, except for those State Special Revenue Funds which receive donations. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the legislative fiscal analyst. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the legislative fiscal analyst

who then prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill making all appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. Additionally, the Governor, or his designee, may approve budget amendments for non-general fund moneys not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. Budget amendments authorized for fiscal year 1995 were not material. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 1995, reverted appropriations for all funds were \$314.6 million of which \$35.6 million were for the General Fund and \$120.3 were for the Special Revenue Fund. Beginning with fiscal year 1994, agencies have the opportunity to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Because appropriations for Capital Projects Funds are not made on an annual basis, activities for the Capital Projects Funds are not presented in the Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance.

B. Budget Basis - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from Governmental Funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.

3. ACCOUNTING AND REPORTING CHANGES

The State made changes in its accounting and reporting practices to enhance conformance with GAAP. Except for the changes highlighted below, all changes reported in the accompanying financial statements, which resulted in the restatement of beginning fund equity, were made to correct errors of prior periods.

The State implemented GASB Statement 21 - Accounting for Escheated Property, which resulted in a prior period adjustment of \$223,000 in the Expendable Trust Funds. This activity was previously reported in Agency Funds.

The State also changed its method of recognizing gains and losses on bond swaps in the Pension Trust Funds from deferral and amortization to immediate recognition. This new method is preferable because it meets the revenue recognition criteria for Pension Trust Funds. The effect of this change is shown on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances as "Cumulative Effect of Change in Accounting Principle".

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	\$ 1,132,682
Equity in Pooled Investments	\$ 2,462,365
Investments	\$ 1,751,305

Carrying amounts and market values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 6.

A. General

(1) Cash and cash equivalents consist of cash deposits, cash invested in the Short Term Investment Pool and investments categorized as cash equivalents.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State in Table 1. Category 1 consists of deposits that are insured or collateralized with securities held by the state or by its agent in the state's name.

Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the state's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Short-Term Investment Pool (STIP), Table 3 - Cash Equivalents, Table 4 - Equity in Pooled Investments and Table 6 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered, securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counterparty's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counterparty, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments were classified in Category 3 at fiscal year-end.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Short-Term Investment Pool (STIP), Table 4 - Equity in Pooled Investments, and Table 6 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc.. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. However, their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENS (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons) and DECS (Dividend Enhanced Common Stock). PENS are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated "investment grade" at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

There are no legal risks that the State is aware of regarding any investments, except an investment in the El Paso Electric Company. El Paso Electric Company declared bankruptcy in January 1992. Per bankruptcy court order, the company has been making its monthly interest payments since January 1992. In 1995, the company began merger negotiations with another company. In June 1995, negotiations ceased and bond holders were notified the June interest payment and subsequent interest payments would not be paid until further notice. On September 8, 1995, the Board of Investments received an interest payment on those bonds for June 1 to August 31, 1995. The Retirement Funds Bond Pool (RFBP) and the All Other Funds (AOF) portfolio administered by the Board of Investments had investments with a book value of \$2,107,000 and \$1,402,000, respectively, in El Paso Electric Company bonds.

(3) Under a security lending agreement with the State's agent, all of the State's investments may be loaned. The agent must maintain collateral equal to 102% of the market value of the securities on loan. The State retains all rights and risks of ownership for the loaned securities.

B. Cash/Cash Equivalents

(1) **Cash Deposits** - The State's main depository bank balance fluctuates daily. The State requires collateralization based on an average daily bank balance. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

TABLE 1 - CASH DEPOSITS (In Thousands)

<u>Risk Category</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Fund</u>
(1) Insured (FDIC)	\$ 1,703	\$ 1,703	Various
Collateral held by State/State's agent	187,419	20,225	Various
(2) Collateral held by Pledging Institution	8,650	8,650	Various
(3) Uncollateralized	897	30	Various
Uncategorized:			
Cash in U.S. Treasury	105,616		
Less: Outstanding Warrants	<u>(39,284)</u>		
TOTAL CASH DEPOSITS	<u>\$265,001</u>		

As of June 30, 1995, the carrying amount of deposits for component units was \$41,495,000 and the bank balance was \$41,280,000. Of the bank balance, \$41,248,000 was fully insured or collateralized with securities held by the component units or their agent's in the unit's name and \$32,000 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) **Short-Term Investment Pool (STIP)** - STIP consists of cash in the State Treasury not invested by individual funds in identifiable securities. Cash is pooled and invested in short-term instruments. Each investing fund, including local governments outside this reporting entity, purchase units in STIP. STIP is under the control of the Board of Investments.

TABLE 2 - SHORT-TERM INVESTMENT POOL (STIP) (In Thousands)

	<u>Risk Categories</u>		<u>Carrying Amount</u>	<u>Market Value</u>	<u>Fund</u>
	<u>1</u>	<u>2*</u>			
Asset-Backed Securities	\$ 127,259	\$ -	\$ 127,259	\$ 127,255	Various
Bankers' Acceptances	87,426	-	87,426	87,415	Various
Commercial Paper	152,610	-	152,610	152,580	Various
Corporate Obligations	85,139	-	85,139	85,371	Various
Government Securities	73,304	49,061	122,365	122,777	Various
Repurchase Agreements	125,000	-	125,000	125,000	Various
Variable-Rate	<u>152,724</u>	<u>249</u>	<u>152,973</u>	<u>152,953</u>	Various
TOTAL STIP	<u>\$ 803,462</u>	<u>\$49,310</u>	<u>\$ 852,772</u>	<u>\$ 853,351</u>	

*At June 30, 1995, these securities with a market value of \$49,764,000 were loaned under a security lending agreement with the State's agent.

As of June 30, 1995, local governments invested \$204,614,000 in the STIP and component units of the State of Montana had investments in STIP of \$136,681,000. STIP participant units are valued at \$1 for both cost and market.

(3) **Cash Equivalents** - Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

TABLE 3 - CASH EQUIVALENTS (In Thousands)

<u>Fund Type</u>	<u>Government Securities</u>	<u>Risk Category 1</u>	<u>Money Market</u>	<u>Other Investments</u>	<u>Carrying Amount</u>	<u>Market Value</u>
PRIMARY GOVERNMENT						
Enterprise	\$ -	\$ -	\$ 1,408	\$ -	\$ 1,408	\$ 1,408
COMPONENT UNITS						
Proprietary	\$ 1,673	\$ 1,673	\$ -	\$ -	\$ 1,673	\$ 1,673
Higher Education	-	-	<u>5,565</u>	<u>6,263</u>	<u>11,828</u>	<u>11,828</u>
Sub-Total	<u>\$ 1,673</u>	<u>\$ 1,673</u>	<u>\$ 5,565</u>	<u>\$ 6,263</u>	<u>\$13,501</u>	<u>\$13,501</u>
TOTAL	<u>\$ 1,673</u>	<u>\$ 1,673</u>	<u>\$ 6,973</u>	<u>\$ 6,263</u>	<u>\$14,909</u>	<u>\$14,909</u>

C. Equity in Pooled Investments - Consists of investments held by three investment pool funds. The Montana Common Stock Pool (MONTCOMP), Montana Convertible Pool (MTCVP), and Retirement Funds Bond Pool (RFBP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust and higher education endowment funds. Purchases are subject to statutory restrictions for quality and size of holdings.

TABLE 4 - EQUITY IN POOLED INVESTMENTS (In Thousands)

	Risk Categories	Carrying Amount	Market Value
	<u>1</u>	<u>2*</u>	
MONTCOMP			
Corporate Stocks	\$ 755,855	\$ 63,796	\$ 819,651
			\$ 983,061
MTCVP			
Zero Coupon Bonds	9,487	2,281	11,768
Convertible Bonds	45,273	3,502	48,775
Preferred Stocks	16,103	4,467	20,570
			19,478
RFBP			
Corporate Asset Backed	95,551	-	95,551
Corporate Stocks	767,502	57,283	824,785
US Govt. Mortgage Backed	111,779	-	111,779
US Govt. Direct	85,713	346,699	432,412
Yankee Bonds	86,923	10,151	97,074
			105,543
TOTAL EQUITY IN POOLED INVESTMENTS	\$1,974,186	\$488,179	\$2,462,365
			\$2,692,675

* At June 30, 1995, these securities with a market value of \$500,082,000 were on loan under a security lending agreement with the State's agent.

As of June 30, 1995, component units of the State of Montana had investments in MONTCOMP, MTCVP, and RFBP pools with a book value of \$928,203,000 and a market value of \$1,163,597,000.

D. Investments - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the Board. The Board, as the State's primary administrator of long-term investments, actively manages 83% of those investments; the Board of Housing, 9%; and the Department of Administration's Personnel Division, 6% for the State's Deferred Compensation Plan. Additionally, the Higher Education Units manage 2% of total investments for bond related activities.

The Board must employ the "Prudent Expert Rule" in managing the State's investment portfolio. The funds carry equity securities at cost and debt securities at amortized cost. Deferred compensation plan investments are carried at market.

The Board of Investments continued to invest in leveraged buyouts and venture capital in fiscal year 1995. The Board's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies, amounts to \$50,000,000. The leveraged buyout invested balance for the pension funds amounted to \$33,459,164 on June 30, 1995.

For the purpose of portfolio diversification, the Board has committed \$27,623,000 for venture capital investments administered by Brinson Partners. The June 30, 1995, venture capital invested balance totaled \$7,476,302 for the Teachers' Retirement and \$9,137,595 for the Public Employees' Retirement systems.

In September 1991, the board committed \$5,000,000 per year for the next five years to invest in mortgage servicing rights. As of June 30, 1995, the invested balance in America's Mortgage Servicing, Inc., totaled \$900,000 for the Teachers' Retirement and \$1,100,000 for the Public Employees' Retirement systems.

TABLE 5 - INVESTMENTS (CARRYING AMOUNT/MARKET VALUE) (In Thousands)

<u>Fund Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Corporate Bonds</u>	<u>Government Securities</u>	<u>Mortgages</u>	<u>Other</u>
PRIMARY GOVERNMENT						
Special Revenue						
Carrying Amount	\$ 14,115		\$ 3,711	\$ 10,404	\$ -	\$ -
Market Value		\$ 14,470	3,750	10,720		
Debt Service						
Carrying Amount	1,671		-	1,671	-	-
Market Value		1,710	-	1,710	-	-
Enterprise						
Carrying Amount	12,661		859	11,598	-	204
Market Value		13,082	871	11,970	-	241
Internal Service						
Carrying Amount	25,120		6,736	17,892	-	492
Market Value		25,807	6,828	18,471	-	508
Expendable Trust						
Carrying Amount	699		-	699	-	-
Market Value		708	-	708	-	-
Nonexpendable Trust						
Carrying Amount	814,688		495,728	260,379	-	58,581
Market Value		850,055	516,430	269,407	-	64,218
Pension Trusts						
Carrying Amount	91,308		-	-	61,330	29,978
Market Value		100,708	-	-	61,330	39,378
Total Identifiable Investments:						
Carrying Amount	\$ 960,262		\$ 507,034	\$ 302,643	\$ 61,330	\$ 89,255
Market Value		\$ 1,006,540	\$ 527,879	\$ 312,986	\$ 61,330	\$ 104,345
Deferred Compensation						
	110,586		110,586			
Total Primary Government						
Carrying Amount	<u>\$1,070,848</u>					
Market Value		<u>\$1,117,126</u>				
COMPONENT UNITS						
Proprietary						
Carrying Amount	\$ 584,093		\$ 203,108	\$ 328,741	\$ -	\$ 52,244
Market Value		\$ 600,822	207,246	338,233	\$ -	55,343
Pension Trust						
Carrying Amount	65,215		-	-	43,120	22,095
Market Value		71,828	-	-	43,120	28,708
Higher Education						
Carrying Amount	31,149		-	29,712	-	1,437
Market Value		31,028	-	29,563	-	1,465
Total Component Units						
Carrying Amount	<u>\$ 680,457</u>		<u>\$ 203,108</u>	<u>\$ 358,453</u>	<u>\$ 43,120</u>	<u>\$ 75,776</u>
Market Value		<u>\$ 703,678</u>	<u>\$ 207,246</u>	<u>\$ 367,796</u>	<u>\$ 43,120</u>	<u>\$ 85,516</u>
TOTAL INVESTMENTS						
	<u><u>\$ 1,751,305</u></u>		<u><u>\$ 1,820,804</u></u>			

TABLE 6 - INVESTMENTS (RISK CATEGORIES) (In Thousands)

<u>Security Type</u>	<u>Categories</u>		<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>		
PRIMARY GOVERNMENT				
Corporate Bonds	\$ 440,705	\$ 32,942	\$ 473,647	\$ 494,558
Corporate Asset-Backed	33,387	-	33,387	33,321
Government Securities	78,601	176,632	255,233	265,242
Government Mortgage-Backed	47,410	-	47,410	47,744
Other	49,083	10,194	59,277	64,967
Total	<u>\$ 649,186</u>	<u>\$ 219,768</u>	<u>\$ 868,954</u>	<u>\$ 905,832</u>

<u>Security Type</u>	<u>Categories</u>		<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>		
COMPONENT UNITS				
Corporate Bonds	\$ 149,894	\$ 7,390	\$ 157,284	\$ 161,734
Corporate Asset-Backed	45,824	-	45,824	45,512
Government Securities	83,342	239,770	323,112	332,146
Government Mortgage-Backed	35,341	-	35,341	35,650
Other	9,416	42,828	52,244	55,343
Total	<u>323,817</u>	<u>289,988</u>	<u>613,805</u>	<u>630,385</u>
TOTAL	<u>\$ 973,003</u>	<u>\$ 509,756</u>	<u>\$1,482,759</u>	<u>\$1,536,217</u>
Direct Investments:				
PRIMARY GOVERNMENT				
Mortgages			\$ 61,330	\$ 61,330
Other			29,978	39,378
Deferred Compensation			110,586	110,586
TOTAL			<u>\$ 201,894</u>	<u>\$ 211,294</u>
COMPONENT UNITS				
Mortgages			\$ 43,120	\$ 43,120
Other			23,532	30,173
Total			<u>\$ 66,652</u>	<u>\$ 73,293</u>
TOTAL INVESTMENTS			<u>\$1,751,305</u>	<u>\$1,820,804</u>

At June 30, 1995, the Board of Investments had securities in Risk Category 2 with a market value of \$365,272,000 on loan under a security lending agreement with the State's agent.

5. FIXED ASSETS

Fixed asset valuation is based on actual or estimated historical cost or, in the case of donations, fair market value on the date donated. Infrastructure fixed assets are generally not capitalized by the Primary Government or its component units. Interest incurred during construction is not capitalized for general fixed assets or fixed asset of the higher education units.

Fixed assets are not depreciated in the General Fixed Assets Account Group. When purchased, such assets are recorded as expenditures in the appropriate Governmental Fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds. Expendable Trust Funds do not show fixed assets within their funds because they are purchased by other funds. Fixed assets are depreciated on a straight-line basis with estimated useful lives of 30 to 50 years for buildings, 20 years for improvements and 4 to 12 years for equipment. Fixed assets and intangible assets for Higher Education Units are accounted for in the Investment in Plant Fund and are not depreciated.

Intrafund transfers of fixed assets have not been eliminated in the table below.

Changes in fixed asset balances for the fiscal year ended June 30, 1995, are reflected in the following table (in thousands):

PRIMARY GOVERNMENT				
	<u>Balance</u>	<u>Additions/</u>	<u>Deletions/</u>	<u>Balance</u>
	<u>July 1, 1994</u>	<u>Transfers</u>	<u>Transfers</u>	<u>June 30, 1995</u>
PROPRIETARY FUNDS				
Land	\$ 1,036	\$ -	\$ -	\$ 1,036
Buildings/Improvements	4,338	150	1	4,487
Equipment	119,671	14,746	3,670	130,747
Other Fixed Assets	11	238	-	249
Construction in Progress	1,125	3,023	3,700	448
Subtotal/Total	<u>126,181</u>	<u>\$ 18,157</u>	<u>\$ 7,371</u>	<u>136,967</u>
Accumulated Depreciation	<u>(69,941)</u>			<u>(76,741)</u>
Total	<u><u>\$ 56,240</u></u>			<u><u>\$ 60,226</u></u>
NONEXPENDABLE TRUST FUNDS				
Land	<u>\$ 49,399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,399</u>

	<u>Balance</u> <u>July 1, 1994</u>	<u>Additions/</u> <u>Transfers</u>	<u>Deletions/</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 1995</u>
PENSION TRUST FUNDS				
Land	\$ 25	\$ -	\$ -	\$ 25
Buildings/Improvements	277	-	-	277
Equipment	<u>135</u>	<u>30</u>	<u>60</u>	<u>105</u>
Subtotal/Total	437	<u>\$ 30</u>	<u>\$ 60</u>	407
Accumulated Depreciation	<u>(203)</u>			<u>(184)</u>
Total	<u>\$ 234</u>			<u>\$ 223</u>
GENERAL FIXED ASSETS ACCOUNT GROUP				
Land	\$ 56,536	\$ 2,801	\$ 1,511	\$ 57,826
Buildings/Improvements	241,266	15,293	5,703	250,856
Equipment	91,061	11,506	10,099	92,468
Other Fixed Assets	44,116	280	40	44,356
Construction in Progress	<u>4,149</u>	<u>5,300</u>	<u>2,192</u>	<u>7,257</u>
Total	<u>\$ 437,128</u>	<u>\$ 35,180</u>	<u>\$ 19,545</u>	<u>\$ 452,763</u>
COMPONENT UNITS				
PROPRIETARY FUNDS				
Equipment	\$ 2,598	<u>\$ 1,416</u>	<u>\$ 546</u>	<u>\$ 3,468</u>
Accumulated Depreciation	<u>(898)</u>			<u>(1,240)</u>
Total	<u>1,700</u>			<u>\$ 2,228</u>
PENSION TRUST FUND				
Land	\$ 35	\$ -	\$ -	\$ 35
Buildings/Improvements	158	-	-	158
Equipment	<u>159</u>	<u>11</u>	<u>-</u>	<u>170</u>
Subtotal/Total	352	<u>\$ 11</u>	<u>\$ -</u>	<u>363</u>
Accumulated Depreciation	<u>(171)</u>			<u>(191)</u>
Total	<u>\$ 181</u>			<u>\$ 172</u>
HIGHER EDUCATION FUNDS				
Land	12,682	\$ 25	\$ 310	\$ 12,397
Buildings/Improvements	293,797	5,173	738	298,232
Equipment	109,490	12,740	3,501	118,729
Other Fixed Assets	67,544	3,355	350	70,549
Construction in Progress	9,376	42,393	190	51,579
Intangible Assets	<u>2,173</u>	<u>192</u>	<u>8</u>	<u>2,357</u>
Total	<u>\$ 495,062</u>	<u>\$ 63,878</u>	<u>\$ 5,097</u>	<u>\$ 553,843</u>

6. RETIREMENT SYSTEMS

A. **Defined Contribution Plans** - Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers' Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These moneys are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Approximately 1,621 employees are members of the ORP. Employee contributions are 7.044% of salary and employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

TIAA-CREF (in thousands)	
Covered Payroll	\$ 39,424
Total Payroll	176,390
Employer Contributions	\$ 1,955
Percent of Covered Payroll	4.959%
Employee Contributions	\$ 2,778
Percent of Covered Payroll	7.046%

B. Defined Benefit Plans - The State contributes to and/or administers eight retirement systems and one pension plan in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination (except VFCA) and disability benefits. All systems (except VFCA) provide post-retirement benefits. Post-retirement benefits for the GWRS, PERS, TRS and SRS are based on investment yield, retirees' total years of service, age and option chosen at the time of retirement. Post-retirement adjustments are made only in years when funding is available and do not increase the unfunded liability of the system. The post-retirement benefits of each of the remaining systems are included in the plan descriptions below.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 40 years. The Contributions Required (R) by State/Actual (A) Contributions section contains the number of years needed to fund the normal cost and amortize the unfunded liability. Additionally, each system functions uniquely as described below:

(1) State as the Single Employer

HPORS - Highway Patrol Officers' Retirement System - This system, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated, provides retirement benefits for all uniformed members of the Montana Highway Patrol, including supervisory personnel. Member and State contributions are 9% and 36.28%, respectively, of total salaries of active highway patrol officers. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the final average salary. Post-retirement benefits are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, will also receive a lump sum payment. This lump sum payment is funded by a registration fee of 25 cents per vehicle license. Rights are vested after five years of service.

JRS - Judges' Retirement System - This system, established in 1967 and governed by Title 19, Chapters 2 & 5 of the Montana Code Annotated, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salary and the State contributes 6% of active judges' salaries, district court fees equal to 34.71% of members' salaries, and 25% of Supreme Court fees. For benefit eligibility, minimum service is 5 years and minimum age is 65. The monthly retirement benefit formula is $3 \frac{1}{3}\%$ times the number of years of service (to a maximum of 15 years) times 1/12 the current annual salary, plus 1.785% of such salary for each year of service after 15 years. JRS retirees receive increases in benefits at the same rate as salary increases are granted to active members through legislative action. Rights are vested after five years of creditable service.

GWRS - Game Wardens' Retirement System - This system, established in 1963 and governed by Title 19, Chapters 2 & 8 of the Montana Code Annotated, provides retirement services for all persons employed as a game warden, including all supervisory personnel. The member contributes 7.9% of salary and the State contributes 7.15% of active game wardens' salaries, plus all collections from fines and forfeited bonds related to fish and game law violations. For benefit eligibility, minimum age is 50 and minimum years of service are 20. A member may retire with ten years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the final average salary. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases. Rights are vested after ten years of service.

(2) State as an Employer Contributor to a Cost-Sharing Multiple-Employer

PERS - Public Employees' Retirement System - This mandatory system, established in 1945 and governed by Title 19, Chapters 2 & 3 of the Montana Code Annotated, provides retirement services to substantially all public employees not covered by another public system. The contribution rate is 6.70% of gross wages for both employees and employers. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of

service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 1/56 times the number of years of service times the final average salary times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases based on members' years of service, age and option chosen at the time of retirement. Members' rights are vested after 5 years of service.

TRS - Teachers' Retirement System - This mandatory system, established in 1937 and governed by Title 19, Chapter 20 of the Montana Code Annotated, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.044% and 7.47%, respectively, of gross salaries. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1/60 times creditable service years times the final average compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

SRS - Sheriffs' Retirement System - This system, established in 1974 and governed by Title 19, Chapters 2 & 7 of the Montana Code Annotated, covers all sheriffs, as well as all State Department of Justice investigators hired after July 1, 1993. The member contribution is 7% of salary; the employer contribution is 7.67% of salary. Minimum years of service for normal service retirement eligibility are 24 for members employed prior to July 1, 1989. For members employed on or after July 1, 1989, the minimum years of service are 24 and the minimum age is 50. The service retirement benefit is calculated at 2.0834% of the final average salary for each year of creditable service, up to a maximum of 50% of final salary, plus 1.35% of the final average salary for each year of service in excess of 24 years, up to a maximum of 60% of final salary. Reduced benefits for early retirement may be taken with a minimum of 15 years of service and a minimum age of 50. Investment earnings in excess of 8%, if any, are used to provide post-employment increases. Rights are vested after 5 years of service if involuntarily terminated, and after 15 years if termination is voluntary.

(3) State as a Nonemployer Contributor to a Cost-Sharing Multiple-Employer

MPORS - Municipal Police Officers' Retirement System - The system, established in 1975 and governed by Title 19, Chapters 2 & 9 of the Montana Code Annotated, covers all municipal police officers of cities covered by the plan. The member contribution is 7.8% of salary for members employed prior to July 1, 1975; 9% of salary for members employed after June 30, 1975, and prior to July 1, 1979; and 10.5% of salary for members employed after June 30, 1979. City contributions are 14.36% of active police officers' salaries. The State contributes 15.66% of active police officers' salaries. The State's contribution is funded from the premium tax on motor vehicle property and casualty insurance policies. Minimum years of service are 10 for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average salary. The post-retirement benefit is the amount needed to ensure that the retiree's benefit is no less than 50% of the base salary of a newly confirmed police officer. These post-retirement benefits are paid directly by the insurance premium tax fund and are in addition to the actuarially determined contributions to the system. Rights are vested after ten years of service.

FURS - Firefighters' Unified Retirement System - This system, established in 1981 and governed by Title 19, Chapters 2 & 13 of the Montana Code Annotated, provides retirement benefits for all paid firefighters. The member contribution is 6% of base compensation, and city contributions are 13.02% of total annual compensation. The State contribution is 23.27% of total annual compensation for all firefighters and is paid out of the insurance premium tax fund. Minimum age is 50 and minimum service is 10 years for benefit eligibility. For members hired prior to July 1, 1981, with at least 20 years of service, the monthly service retirement benefit is equal to 1/2 of the final monthly compensation received plus an additional 1% for each year in excess of 20 years, up to a maximum retirement benefit of 60% of final monthly compensation. Members hired on or after July 1, 1981 receive a service retirement benefit equal to 2% of final average salary for each year of service up to a maximum of 30 years. Post-retirement benefits require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. The cost of this adjustment for members retired prior to July 1, 1973 and for members hired on or after July 1, 1981 is paid from the fire insurance premium tax fund, provided funds are available. Rights are vested after ten years of service.

(4) State as a Nonemployer Contributor

VFCA - Volunteer Firefighters' Compensation Act - This compensation program, established in 1965 and governed by Title 19, Chapter 17 of the Montana Code Annotated, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. The State contribution is 5% of fire insurance premium taxes collected. This retirement system is required by law to be fully funded and cannot pay benefits unless money is available. Rights are vested after 10 years of qualified service.

C. Actuarial Data

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuary reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA, performed the actuarial valuation for TRS. With the exception of the VFCA, which discloses information as of June 30, 1993, the following tables disclose various information by retirement system (dollar amounts expressed in thousands) as of June 30, 1995. Although specific total payroll amounts are not available, substantially all of total payroll is covered.

	PRIMARY GOVERNMENT							COMP UNIT TRS	
	HPORS	JRS	GWRS	PERS	SRS	MPORS	FURS	VFCA	
Membership									
Receiving Benefits	229	46	74	12,144	118	490	414	672	7,736
Vested Term. Employee	2	1	2	1,308	20	13	6	412	1,130
Non-vested Term. Employee	4	-	1	7,370	98	30	51	1,870	6,201
Vested Active Employees	123	23	45	19,452	347	204	256	2,030	11,353
Non-vested Active Employees	80	21	35	8,012	207	305	158	708	6,709
Total	438	91	157	48,286	790	1,042	885	5,692	33,129
Plan Descriptions									
Total Covered Payroll	\$ 5,410	\$ 2,371	\$ 2,343	\$ 602,215	\$ 15,926	\$ 14,288	\$ 12,790	N/A	\$ 466,310
State Covered Payroll	\$ 5,410	\$ 2,371	\$ 2,343	\$ 313,424	720	N/A	N/A	N/A	\$ 65,833
	PRIMARY GOVERNMENT								
	HPORS	JRS	GWRS	PERS	SRS	MPORS	FURS	VFCA	
Funding Status & Progress									
Last Actuarial Valuation	7/01/94	7/01/94	7/01/94	7/01/94	7/01/94	7/01/94	7/01/94	7/01/94	
Actuarial Update	6/30/95	6/30/95	6/30/95	6/30/95	6/30/95	6/30/95	6/30/95	6/30/95	
Return on Investments	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Projected Salary Increases:									
Inflation	6.0%	6.0%	6.0%	6.25%	6.0%	6.0%	6.0%	6.0%	
Merit	NONE	NONE	NONE	NONE	NONE	NONE	NONE	NONE	
Changes In Post-retirement	6.0%	6.0%	NONE	NONE	NONE	NONE	NONE	NONE	
PBO (1):									
Retirees,beneficiaries (2)	\$41,078	\$18,276	\$10,101	\$ 754,751	\$ 11,795				
Current Employees (3)	6,008	1,321	2,863	394,366	12,894				
Employer-financed vested	15,919	5,245	2,865	424,162	20,888				
Employer-financed non-vested	1,063	1,324	365	18,141	1,966				
Total PBO	\$64,068	\$26,166	\$16,194	\$1,591,420	\$47,543				
Net Assets Available for Benefits at Cost*	\$38,928	\$20,401	\$14,950	\$1,276,856	\$55,527				
Unfunded PBO	\$25,140	\$ 5,765	\$ 1,244	\$ 314,564	\$ 7,984				
Assets in Excess of PBO									
*At Market Value	\$43,599	\$22,895	\$17,197	\$1,483,182	\$61,311				
	TOTAL PRIM GOVT							COMP UNIT TRS	
	MPORS	FURS	VFCA						
Funding Status & Progress									
Last Actuarial Valuation	7/01/94	7/01/94	7/01/93					7/01/94	
Actuarial Update	6/30/95	6/30/95	N/A					6/30/95	
Return on Investments	8.0%	8.0%	8.0%					8.0%	
Projected Salary Increases:									
Inflation	6.0%	6.0%	(4)					6.0%	
Merit	NONE	NONE	(4)					.5%	
Changes In Post-retirement	NONE	6.0%	NONE					NONE	
PBO (1):									
Retirees,beneficiaries (2)	\$53,796	\$ 54,993	\$ 9,120	\$ 953,910	\$ 830,372				
Current Employees (3)	11,766	12,030	8,435	449,683	493,519				
Employer-financed vested	24,755	54,504	N/A	548,338	341,932				
Employer-financed non-vested	5,763	4,552	N/A	33,174	15,470				
Total PBO	\$96,080	\$126,079	\$17,555	\$1,985,105	\$1,681,293				
Net Assets Available for Benefits at Cost*	\$57,610	\$ 56,473	\$ 9,970	\$1,530,715	\$1,067,110				
Unfunded PBO	\$38,470	\$ 69,606	\$ 7,585	\$ 454,390	\$ 614,183				
Assets in Excess of PBO									
*At Market Value	\$62,955	\$ 60,913	\$10,522	\$1,764,829	\$1,309,100				

Contributions Required (R) by Statute/Actual (A) Contributions (5) (Statute Req. is Actuarially Determined)

	PRIMARY GOVERNMENT								COMP UNIT TRS	
	HPORS	JRS	GWRS	PERS	SRS	MPORS	FURS	VFCA		
Total Contributions	\$ 2,961	\$ 950	\$ 545	\$80,653	\$2,598	\$ 6,383	\$ 5,605	\$ 766		\$76,855
									(4)	
Normal Cost	1,397	935	359	61,486	2,196	3,222	2,434	401		44,271
% Of Covered Payroll	25.82%	39.43%	15.32%	10.21%	13.79%	22.55%	19.03%	N/A		9.49%
Amort Unfunded Liab	1,564	15	186	19,167	402	3,161	3,171	404		32,584
% Of Covered Payroll	28.91%	.62%	7.94%	3.18%	2.52%	22.12%	24.79%	N/A		6.99%
Years Req. to Fund Normal Cost & Amortize Unfunded Liab.	26.35	8.59	.43	16.12	-	16.65	25.46	(4)		31.7
Employer Contributions (A)	\$ 1,521	\$ 166	\$ 186	\$39,109	\$1,289	\$ 2,527	\$ 1,715	-		\$39,073
% of Covered Payroll (A)	28.12%	6.98%	7.93%	6.49%	8.10%	17.69%	13.41%	-		8.379%
% of Covered Payroll (R)	36.28%	6.0%	7.15%	6.70%	7.67%	14.36%	13.02%	-		7.470%
State Contributions (A)	\$ 1,521	\$ 166	\$ 170	\$20,999	55	-	-	-		\$ 5,562
% of Employer Cont. (A)	100%	100%	100%	53.7%	4.3%	-	-	-		14.2%
Employee Contributions (A)	\$ 573	\$ 193	\$ 204	\$41,344	\$1,310	\$ 1,589	\$ 805	-		\$ 37,782
% of Covered Payroll (A)	10.59%	8.15%	8.71%	6.87%	8.22%	11.12%	6.29%	-		8.102%
% of Covered Payroll (R)	9.0%	7.0%	7.9%	6.70%	7.0%	(6)	5.0%	-		7.044%
Other Contributions (A)	\$ 867	\$ 591	\$ 156	\$ 200	\$ -	\$ 2,266	\$ 3,084	\$ 766		-
% of Covered Payroll (A)	16.02%	24.92%	6.67%	.03%	-	15.86%	24.12%	N/A		-
% of Covered Payroll (R)	(7)	(8)	(9)	-	-	(10)	(11)	N/A		-

- (1) The amounts shown as the PBO ("Pension Benefit Obligation") are standardized disclosure measures of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the systems. The significant actuarial assumptions used in the annual evaluations are the assumptions used in the PBO determination.
- (2) Retirees, beneficiaries receiving benefits and terminated employees not yet receiving benefits.
- (3) Current employees - accumulated employee contributions including allocated investment earnings.
- (4) This retirement plan is required to be fully funded and cannot pay benefits unless money is available. Contributions were not sufficient to fund future benefits and amortize the existing unfunded liability over a period of 30 years.
- (5) Actual percentages exceed required percentages (unless otherwise footnoted) because contributions include amounts for buybacks.
- (6) For members employed before July 1, 1975, contributions are 7.8% of salary; for members employed on or after July 1, 1975, and prior to July 1, 1979, contributions are 9% of salary; for members employed on or after July 1, 1979, contributions are 10.5% of salary.
- (7) Other contributions include fees from drivers' licenses and vehicle registrations.
- (8) Other contributions consist of District Court Fees equal to 34.71% of covered payroll and 25% of Supreme Court Fees. However, during the year ended June 30, 1995, actual contributions did not cover the year's normal cost.
- (9) Other contributions include all collections from fines and forfeited bonds related to fish and game law violations.
- (10) The \$2,266,000 contribution by the State equals 15.66% of active policemen's salaries and is contributed from a premium tax on motor vehicle property and casualty insurance policies. A \$1,860,000 supplemental amount for post-retirement benefits for members with a minimum of 20 years of service at retirement is not included. The State's contribution is 47.3% of total Employer and Other contributions.
- (11) The \$3,084,000 contribution by the State equals 23.27% of total firefighters' compensation and is contributed from a premium tax on insurance risks. A \$1,093,000 supplemental amount for post-retirement benefits for retired members is not included. The State's contribution is 64.3% of total Employer and Other contributions.

D. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information is available starting in fiscal year 1988 for HPORS, JRS, GWRS, PERS, TRS, MPORS, FURS, and SRS and can be found in the annual reports of these retirement systems.

REQUIRED SUPPLEMENTARY INFORMATION Analysis of Funding Progress

	PRIMARY GOVERNMENT						COMP UNIT	
	HPORS	JRS	GWRS	PERS	SRS	MPORS	FURS	TRS
Net Assets Available for Benefits Expressed as a % of PBO (Percentage Funded)								
1993...	57.0%	75.6%	88.2%	78.8%	128.2%	56.3%	43.8%	59.5%
1994...	58.6%	80.2%	91.1%	81.4%	123.5%	58.6%	45.1%	63.0%
1995...	60.8%	78.0%	92.3%	80.2%	116.8%	60.0%	44.8%	63.5%
Unfunded PBO, Expressed as a % of Annual Covered Payroll								
1993...	461.4%	208.5%	69.4%	53.1%	70.6%*	293.1%	518.1%	141.2%
1994...	460.5%	171.6%	56.7%	47.8%	61.0%*	275.1%	505.5%	131.0%
1995...	464.7%	243.1%	53.1%	52.2%	50.1%*	269.2%	544.2%	131.7%
*Assets in Excess of PBO, Expressed as a % of Annual covered Payroll								
Employer Contributions Expressed as a % of Annual Covered Payroll								
1993...	27.58%	6.00%	7.15%	6.70%	7.67%	14.36%	13.02%	8.55%
1994...	27.43%	5.98%	7.78%	6.70%	7.57%	14.31%	13.00%	8.89%
1995...	28.12%	6.98%	7.88%	6.49%	8.09%	17.69%	13.41%	8.38%

7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee health care benefits at the time they discontinue State employment and (2) dependents who lose dependent eligibility. At June 30, 1995, 133 individuals were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established premiums vary between \$107 and \$279 per month depending on the medical plan selected, family coverage and Medicare eligibility. The State acts as secondary payor for Medicare-eligible claimants. As of June 30, 1995, 2,736 retirees were receiving health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-payments of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$9,267,567 were recognized for postemployment health care benefits. Of this amount, \$7,294,883 was covered by former employees' premium contributions leaving \$1,972,684 of claims in excess of premium revenue that was paid by the State.

In accordance with 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), or an annuity under the Optional Retirement Plan (ORP). Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between \$120 and \$338 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare-insured. After an annual \$250 deductible, MUS reimburses 80% of the first \$3,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursements for members eligible for Medicare even if not enrolled in Medicare. As of June 1995, 1,161 retirees are enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 1995, estimated expenditures of \$3,225,523 were recognized for postemployment health care benefits. Of this amount, \$2,346,018, was covered by premiums paid by retirees and \$879,504 was paid by the MUS.

8. DEFERRED COMPENSATION PLAN

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary each payday towards retirement while deferring the State and Federal income taxes until future years. The payroll deferrals are invested with Nationwide Insurance. All employees of the State are eligible to participate. The plan operates under the sanction of both State and Federal laws (Title 19, Chapter 50, MCA, and Section 457 of the Internal Revenue Code). The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. In the past, the plan assets have been used for no purpose other than to pay benefits. The State believes it is unlikely it will use the assets to satisfy the claims of general creditors in the future because of the contractual arrangement with Nationwide Insurance and the State's obligation to participants for their account balance. State statute provides that the State and its political subdivisions are not liable for any investment losses incurred by any eligible deferred compensation plan. However, the State does have the duty of care required of an ordinary prudent investor. As of June 30, 1995, the net assets of the plan available for benefits totaled \$110,669 million.

The following table provides a summary of the increases and decreases of the Employees Deferred Compensation Agency Fund for the fiscal year ended June 30, 1995, (in thousands):

Fund Assets (at market value), July 1, 1994	\$ 99,737
Deerrals of compensation	8,265
Earnings and adjustment to market value	9,537
Payments to eligible participants and beneficiaries	(6,428)
Administrative expenses	(442)
Fund Assets (at market value), June 30, 1995	<u>\$110,669</u>

9. RISK MANAGEMENT

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at amortized cost. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) **Hail Insurance** - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the hail insurance program. Approximately 1,989 producers participated in this program in 1995. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt and no later than September 30. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of \$642,503 based on claims submitted for losses through June 30, 1995. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) **Subsequent Injury** - This fund provides benefits to workers certified as vocationally handicapped who are injured on the job and entitled to benefits under the Workers' Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 1,827 individuals certified as vocationally handicapped.

Workers' compensation insurance premium experience modification factors are influenced by the 2 year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring the certified vocationally handicapped.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed an amount of up to 5% of each insurer's compensation payments for the previous fiscal year. An estimated liability is recorded based on a projected cost (case-by-case) analysis of each injured, certified, vocationally handicapped worker. As of June 30, 1995 the amount of this liability is estimated to be \$1,039,000.

(3) **State Compensation Insurance (New Fund)** - Liability coverage to employers for injured employees who are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 25,607 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers' compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1995, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. At June 30, 1995, \$541,373,699 of unpaid claims and claim adjustment expenses are presented at their net present value of \$395,837,222. These claims are discounted at an annual rate of 5.75% (See Note 14).

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis; all liability of the New Fund is terminated.

Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect.

(4) **State Compensation Insurance (Old Fund)** - The liability and payment of workers' compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund. Funding for claim payments is provided by old fund liability taxes (OFLT) imposed on employers' payroll (0.5%), employees' wages (0.2%) and sole proprietors and subchapter S shareholders' distributive income (0.2%). The OFLT will provide funding for old fund claims and bond payments (see Note 12 G(3)). An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1995, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 1995, \$295,748,844 of unpaid claims and claim adjustment expenses are presented at face value. This fund generates little interest earnings, does not discount estimated claims liabilities, and does not compute a premium deficiency (See Note 14).

(5) **Changes in Claims Liabilities For the Past Two Years** - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

<u>Primary Government</u>	<u>HAIL INSURANCE</u>		<u>SUBSEQUENT INJURY</u>	
	<u>1995</u>	<u>1994</u>	<u>1995</u>	<u>1994</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 708	\$ 495	\$ 968	\$1,061
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	1,023	2,226	-	-
Increase (Decrease) in provision for insured events of prior years	(350)	(33)	165	103
Total incurred claims and claim adjustment expenses	673	2,193	165	103
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(380)	(1,518)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(358)	(462)	(94)	(196)
Total payment	(738)	(1,980)	(94)	(196)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 643	\$ 708	\$1,039	\$ 968

<u>Component Units</u>	<u>STATE COMPENSATION INSURANCE (NEW FUND)</u>		<u>STATE COMPENSATION INSURANCE (OLD FUND)</u>	
	<u>1995</u>	<u>1994</u>	<u>1995</u>	<u>1994</u>
Unpaid claims and claim adjustment expenses at beginning of year	<u>\$509,020</u>	<u>\$404,706</u>	<u>\$339,485</u>	<u>\$365,249</u>
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	173,327	184,039	-	-
Increase (Decrease) in provision for insured events of prior years	<u>(63,249)</u>	<u>(3,952)</u>	<u>(3,795)</u>	<u>2,975</u>
Total incurred claims and claim adjustment expenses	<u>110,078</u>	<u>180,087</u>	<u>(3,795)</u>	<u>2,975</u>
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(18,137)	(18,693)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(59,587)</u>	<u>(57,080)</u>	<u>(39,941)</u>	<u>(28,739)</u>
Total payment	<u>(77,724)</u>	<u>(75,773)</u>	<u>(39,941)</u>	<u>(28,739)</u>
Total unpaid claims and claim adjust. exp. at end of the year	<u>\$541,374</u>	<u>\$509,020</u>	<u>\$295,749</u>	<u>\$339,485</u>

(6) Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services; its funding source is the old fund liability tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 5 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 6 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

	<u>STATE COMPENSATION INSURANCE (NEW FUND)</u>				
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
1. Net earned required contribution and investment revenues	\$ 113,734	\$ 144,035	\$ 181,715	\$ 191,794	\$ 156,782
2. Unallocated expenses including overhead	6,048	8,232	9,325	9,090	11,303
3. Estimated incurred claims and expenses, end of policy year	137,237	183,425	186,480	199,890	164,824
4. Paid (cumulative) as of:					
End of policy year	17,618	20,244	18,347	18,693	18,137
One year later	44,335	50,576	46,343	45,947	
Two years later	64,079	68,837	62,717		
Three years later	74,901	77,950			
Four years later	81,747				

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
5. Reestimated incurred claims and expense:					
End of policy year	137,237	183,425	186,480	199,890	164,824
One year later	166,980	184,968	184,030	176,979	
Two years later	160,272	175,218	161,045		
Three years later	151,554	156,660			
Four years later	138,180				
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	943	(26,765)	(25,435)	(22,911)	

B. Other Than Public Entity Risk Pools

(1) Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured, with the State assuming all the risk for claims incurred by employees of the State, elected officials, retirees and their dependents. There is no third party coverage. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement System and self-payment and are recorded as revenue in the Employees' Group Benefits Internal Service Fund. At June 30, 1995, estimates for claims liabilities, which include incurred but not reported claims, are \$6,759,693 and are based on a formula provided by Martin E. Segal Company, a consulting actuarial firm. A liability is recorded in the accompanying financial statements for these estimated claims.

(2) Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Montana Higher Education Student Assistance Corporation (MHESAC), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. United of Omaha is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The estimated claims liability is estimated to be \$3,200,000 as of June 30, 1995, based on prior year experience. A liability is recorded in the accompanying financial statements for these estimated claims.

(3) Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, retail liquor stores inventory and State-administered foreclosure housing units. The State self-insures the \$150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The state also self-insures against losses of equipment below \$150,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects over \$1.7 billion of state owned buildings and contents. The state property insurance includes earthquake and flood protection to \$100 million annually with deductibles of \$1 million for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

A biennial actuarial study, prepared by Tillinghast, a Towers Perrin Company, and issued for the accident period 7/1/88 through 6/30/94, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 1995, estimated claims liability of \$19,329,016, discounted at 15%, includes those claims incurred but not reported and is recorded in the accompanying financial statements.

(4) Changes in Claims Liabilities For the Past Two Years - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	<u>Group Employees Medcial & Dental</u> <u>1995</u>	<u>MUS Group Benefits</u> <u>1995</u>	<u>Prop. & Casualty Insurance</u> <u>1995</u>	<u>1994</u>
Amount of claims liabilities at the beginning of each fiscal year	<u>\$ 6,117</u>	<u>\$ 3,200</u>	<u>\$ 17,421</u>	<u>\$ 15,431</u>
Incurred claims:				
Provision for insured events of the current year	35,306	29,363	6,584	5,985
Increases (Decreases) in provision for insured events of prior years	<u>643</u>	<u>124</u>	<u>(498)</u>	<u>(813)</u>
Total incurred claims	<u>35,949</u>	<u>29,487</u>	<u>6,086</u>	<u>5,172</u>
Payments:				
Claims attributable to insured events of the current year	(35,306)	(29,363)	(1,146)	(889)
Claims attributable to insured events of prior years	<u>-</u>	<u>-</u>	<u>(3,032)</u>	<u>(2,293)</u>
Total Payments	<u>(35,306)</u>	<u>(29,363)</u>	<u>(4,178)</u>	<u>(3,182)</u>
Total claims liability at end of each fiscal year	<u>\$ 6,760</u>	<u>\$ 3,200</u>	<u>\$ 19,329</u>	<u>\$ 17,421</u>

10. COMMITMENTS

A. Highway Construction - At June 30, 1995, the Department of Transportation had contractual commitments of approximately \$124.9 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction - At June 30, 1995, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$29.6 million for capital projects construction. The Primary Government will fund \$23.8 million of these projects with the remaining \$5.8 million coming from higher education funds.

C. Proprietary Fund Commitments - Fixed budgets are legally adopted in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

PRIMARY GOVERNMENT

<u>Enterprise Funds</u>	<u>AMOUNT</u>
Liquor Stores	\$ 44
State Lottery	2
Uninsured Employers	4
Sec. of State Business Serv.	34
Historical Society Publications	16
Local Government Audits	30
Subtotal-Enterprise Funds	<u>\$ 130</u>

Internal Service Funds

Highway Equipment	\$ 473
ISD	745
Admin. Insurance	34
FWP Equipment	95
Admin. Property & Supply	93
Publications & Graphics	50
Buildings & Grounds	25
Labor Central Services	4
Commerce Central Services	49
DHES Indirect Cost Pool	13
FWP Warehouse Inventory	6
Aircraft Operation	21
Investment Division	26
Records Management	9
Subtotal-Internal Service Funds	<u>\$ 1,643</u>

Total-Primary Government \$ 1,773

COMPONENT UNITS

Housing Authority	\$ 22
State Compensation Insurance (New Fund)	1,818
Subtotal-Component Units	<u>\$ 1,840</u>
Total- Proprietary Fund Types-Reporting Entity	<u>\$ 3,613</u>

11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases - Changes in capitalized leases/installment purchases follow (in thousands):

Primary Government	Balance July 1, 1994	Additions (Deductions)	Balance June 30, 1995
General Long-Term Obligations	\$ 1,527	\$ (279)*	\$ 1,248
Proprietary Fund Types			
Enterprise Fund	\$ 113	\$ (57)	\$ 56
Internal Service Fund	<u>2,170</u>	<u>(1,114)</u>	<u>1,056</u>
Total Proprietary	\$ 2,283	\$ (1,171)	\$ 1,112
Total-Primary Government	<u>\$ 3,810</u>	<u>\$ 1,450</u>	<u>\$ 2,360</u>
Component Units			
Pension Trust Fund	\$ 105	\$ (18)	\$ 87
Higher Education Funds	<u>\$ 3,088</u>	<u>\$ (841)</u>	<u>\$ 2,247</u>
Total-Component Units	<u>\$ 3,193</u>	<u>\$ (859)</u>	<u>\$ 2,334</u>
Total Capitalized Leases/ Installment Purchases	\$ 7,003	\$ (2,309)	\$ 4,694

*This amount consists of \$642,000 of additions as inceptions; \$5,000 of additions as adjustments; and \$926,000 as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government			Component Units		
	General Long-Term Obligations	Proprietary Fund Types	Internal Service	Pension Trust	Higher Education Funds	Totals
1996	\$ 693	\$ 59	\$ 588	\$ 61	\$1,426	\$ 2,827
1997	343	-	363	33	525	1,264
1998	158	-	165	-	332	655
1999	109	-	12	-	106	227
2000	71	-	-	-	25	96
After 2000	—	—	—	—	—	—
Total minimum payments	\$ 1,374	\$ 59	\$ 1,128	\$ 94	\$2,414	\$ 5,069
Less: Interest	<u>(126)</u>	<u>(3)</u>	<u>(72)</u>	<u>(7)</u>	<u>(167)</u>	<u>(375)</u>
Present value of minimum payments	<u>\$ 1,248</u>	<u>\$ 56</u>	<u>\$ 1,056</u>	<u>\$ 87</u>	<u>\$ 2,247</u>	<u>\$ 4,694</u>

B. Operating Leases - Total rental payments for operating leases in fiscal year 1995 were \$6,553,000. Future rental payments for operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Amount
1996	\$ 5,558
1997	4,380
1998	3,164
1999	2,520
2000	1,527
After 2000	<u>3,786</u>
Total future rental payments	<u>\$20,935</u>

12. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than \$50 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been reclassified as short-term debt. The amounts issued and outstanding at June 30, 1995, are as follows (in thousands):

<u>Series</u>	<u>Amount Issued</u>	<u>Balance June 30, 1995</u>
1988	\$ 5,000	\$ 910
1991	5,000	4,890
1992	6,500	6,365
1994	7,500	<u>7,415</u>
TOTAL		\$19,580

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 1995, is as follows (in thousands):

<u>General Obligation Debt</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Principal Payments</u>			<u>Balance June 30, 1995</u>
			<u>Interest Range (%)</u>	<u>In Year of FY 1996</u>	<u>Maturity (11)</u>	
Highway Bldg Complex	1976	\$ 7,400	5.0	\$ 600	\$ 600 (1996)	\$ 600
Long-Range Bldg Program	1985A	8,550	7.2-8.0	375	150 (2001)	1,025
Water Development Program (1)	1988	500	9.4	15	50 (2009)	420
Water Development Program (1)	1989B	500	8.55	15	50 (2010)	440
Water Development Program (1)	1991A	750	8.0-8.5	30	90 (2007)	670
Wastewater Treatment Works	1991B	2,595	5.0-6.8	75	215 (2014)	2,460
GO Refunding	1992	31,330	4.0-7.0	10,885	390 (2010)	19,160
Energy Conservation Program (2)	1993A	1,500	2.5-4.75	130	180 (2004)	1,375
Long-Range Bldg Program	1993B	3,185	2.5-4.25	345	310 (2004)	2,845
Renewable Resource Development(1)	1993C	750	3.5-5.65	60	95 (2004)	690
Long-Range Bldg Program	1994A	22,540	4.2-6.0	720	1,725 (2014)	21,810
Wastewater Treatment Works	1994B	2,200	4.2-6.1	-	180 (2016)	2,200
Long-Range Bldg Program	1994C	21,955	5.125-7.0	650	1,790 (2015)	21,955
Energy Conservation Program (2)	1994D	1,600	4.9-7.0	125	200 (2005)	1,600
Renewable Resource Development (1)	1994E	750	7.7-8.5	55	105 (2005)	<u>750</u>
Total General Obligation Debt		\$106,105		\$14,080		\$ 78,000
<u>Special Revenue Bonds</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Principal Payments</u>			<u>Balance June 30, 1995</u>
			<u>Interest Range (%)</u>	<u>In Year of FY 1996</u>	<u>Maturity (11)</u>	
Department of Transportation	1987	\$ 37,955	5.5-6.25	\$ 8,720	\$ 9,795 (1998)	\$ 27,750
Water Conservation (3)	-	535	3.463-5.0	13	3 (2016)	312
Water Dev. Program (4)	1987C	1,215	6.25-7.6	45	120 (2008)	990
Water Dev. Program (4)	1988A	1,720	6.75-7.3	60	160 (2009)	1,435
Water Dev. Program (4)	1989A	6,000	6.1-6.9	210	520 (2010)	5,125
Broadwater Power Project (4)(6)	1990A	3,800	9.5	305	505 (2002)	2,795
Water Development Program (4)	1990B	9,625	6.2-7.2	430	955 (2007)	7,645
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	3.0-6.1	735	1,250 (2006)	10,560
Water Development Program (4)	1992B	9,375	2.8-6.0	290	795 (2013)	8,825
Department of Transportation	1993	<u>72,375</u>	2.5-5.2	<u>2,000</u>	<u>3,705 (2005)</u>	<u>69,375</u>
Total Special Revenue Bonds		\$176,290		\$12,808		\$156,547
Middle Creek Dam Project (7)		\$ 2,990	8.125	\$ 30	1,581 (2032)	\$ 3,239
Treasure State Endowment (8)		4,134	5.85	407	808 (2001)	4,134
Natural Resource Damage Lit. Pgm. (9)		7,437	-	-		7,437
Developmental Center Project (10)		<u>13,100</u>	4.4-6.4	<u>70</u>	<u>1,015 (2019)</u>	<u>13,100</u>
Total Notes Payable		\$27,661		\$ 507		\$ 27,910
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP						\$262,457

- (1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of and payable from certain coal severance taxes. Series 1988, 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
- (3) Bonds sold to Farmers Home Administration.
- (4) Bonds issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes.
- (5) First payment of \$795,000 is due in 2003.
- (6) Bonds were sold to the Montana Board of Investments.
- (7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes 277,158 of interest owed.
- (8) Board of Investments Treasure State Endowment loan from the Coal Tax Trust Fund to the State of Montana Department of Commerce. First payment of \$199,563 is due in 1996.
- (9) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Interest accrues at .5% over the yield on the most recent issue of United States Government 30 Year Bonds. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.
- (10) Montana Health Facility Authority loan to the Department of Corrections for the Montana Developmental Center Project.
- (11) Year of Maturity refers to fiscal year.

Board of Regents Issues Higher Education Units	Series	Amount Issued	Interest Range (%)	Principal Payments			Balance June 30, 1995
				FY 1996	In Year of Maturity		
University of Montana (U of M)	1993A/1995B	\$ 53,615	2.3-6.9	\$ 1,690	\$ 1,810 (2016)	\$ 52,025	
Montana State University (MSU)	1985B/1986A/ 1987A/1993A	52,312	2.6-8.65	1,465	11,265 (2017)	45,572	
Montana Tech of the U of M	1986A	6,745	6.6-7.625	185	1,070 (2010)	5,485	
MSU - Billings	1994C	9,360	3.3-6.0	595	425 (2007)	8,765	
MSU - Northern	1994C	2,890	3.3-6.0	90	100 (2015)	2,820	
Western Montana College of the U of M (WMC)	1993A/1995B	1,371	2.2-6.9	70	61 (2016)	1,286	
Helena College of Technology of The University of Montana (HCT)	1995B	620	4.6-6.9	30	35 (2009)	620	
		<u>\$126,913</u>		<u>\$4,125</u>		<u>\$116,573</u>	
Less: Unamortized Discount						<u>(1,203)</u>	
Total Higher Education Bonded Debt						<u>\$115,370</u>	

Higher Ed Nonbonded Debt	\$	204	Variable	\$	6	\$	5 (2012)	\$	176
U of M Mortgage Payable		350	5.0		117		122 (1997)		239
MSU Thackeray Note		285	5.69		49		54 (1998)		154
MSU - Billings, P.E. Building Note		31	5.6		10		11 (1996)		10
MSU - Northern, Gas Distribution Note		1,041	Variable		109		50 (2006)		961
MSU - Northern, Note		16	6.2		16		16 (1996)		16
WMC INTERCAP Program Note		60	Variable		7		8 (1999)		60
WMC Mortgage Payable		70	6.5		3		5 (2009)		67
College of Technology, MSU Billings, Note		876	None		106		95 (1999)		397
College of Technology, UM - Missoula, INTERCAP Program Note		96	Variable		18		21 (1999)		79
Total Higher Education Nonbonded Debt		<u>\$ 3,029</u>			<u>\$ 441</u>		<u>\$ 2,159</u>		
TOTAL HIGHER EDUCATION FUNDS							<u>\$117,529</u>		

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non- Bonded Debt	Total Requirements
1996	\$ 17,842	\$ 22,649	\$ 9,966	\$ 545	\$ 51,002
1997	9,126	22,757	9,907	452	42,242
1998	5,815	22,858	9,833	325	38,831
1999	6,061	21,333	9,843	274	37,511
2000	5,933	28,303	9,832	164	44,232
2001+	69,663	142,386	140,622	605	353,276
Totals	\$114,440	\$260,286	\$190,003	\$ 2,365	\$ 567,094

A summary of changes in long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds for the fiscal year ending June 30, 1995, is as follows (in thousands):

	<u>Balance July 1, 1994</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 1995</u>
General Obligation Debt	\$ 66,070	\$ 26,505	\$ 14,575	\$ 78,000
Special Revenue Debt	221,455	13,100	50,098	184,457
Higher Ed Revenue Bonds	111,147	7,556	3,333	115,370
Higher Ed Nonbonded Debt	<u>2,076</u>	<u>471</u>	<u>388</u>	<u>2,159</u>
Totals	\$ 400,748	\$ 47,632	\$ 68,394	\$ 379,986

D. Early Bond Redemption

On June 29, 1995, the Montana Department of Transportation deposited \$41.015 million with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of a legal defeasance and \$39.665 million of the 1993 Series A Bonds, maturing on July 1, 2003, through July 1, 2005, were removed from the financial statements.

E. Early Retirement Benefits Note

The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees' Retirement System. The payments may be made over a period of time not to exceed eight years at an interest rate of eight percent. Dept Service requirements are as follows (in thousands):

<u>FUND</u>	<u>Principal Payments</u>		<u>Balance June 30, 1995</u>
	<u>FY 1996</u>	<u>In Year of Maturity</u>	
General Long-Term Obligation	\$ 48	\$ 82	\$ 510
Enterprise	5	8	49
Higher Education Units	<u>59</u>	<u>70</u>	<u>212</u>
TOTAL	<u>\$ 112</u>	<u>\$ 160</u>	<u>\$ 771</u>

F. Refunded Bonds

On June 9, 1994, the Housing Authority issued \$40,815,000 Single Family Program Bonds, 1994 Series B. A portion of these proceeds were used to optionally redeem, on August 1, 1994, \$16,875,000 of the Single Family Program Bonds 1983 Series B, at a premium of 102.5%, and \$11,200,000 of the Single Family Program Bonds, 1984 Series A, at a premium of 103%. On April 6, 1995, the Housing Authority issued \$33,580,000 Single Family Program Bonds, 1995 Series A. A portion of these proceeds were used to optionally redeem, on June 1, 1995, \$5,000,000 of the Single Family Program Bonds 1985 Series B, at a premium of 102%.

As required by Governmental Accounting Standards Board (GASB), Statement Number 23, the Housing Authority deferred 762,234 of costs related to the refundings of the 1994 Series B and the 1995 Series A Bonds. These deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds. The 1994 Series B refunding resulted in an economic gain of \$11,962,013 and a difference in cash flows of \$10,104,447. The 1995 Series A refunding resulted in an economic gain of \$1,174,540 and a cash flow difference of (\$1,430,338).

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1995, the defeased bonds outstanding are as follows (in thousands):

General Obligation	\$ 18,245
Special Revenue	126,420
Higher Education Revenue	<u>37,910</u>
Total	<u>\$182,575</u>

G. Enterprise Funds

(1) **Economic Development & Municipal Finance Consolidation Act Bonds (EDB)** - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 1995
				FY 1996	In Year of Maturity	
Industrial Development Revenue Bonds (Pooled Loan) (1)	1984A,F,G	\$ 1,495	7.0-10.75	\$ 55	\$ 340 (2006)	\$ 1,180
Industrial Development Revenue Bonds (Pooled Loan) (1)	1985A,C-I,K	3,160	6.75-10.1	110	395 (2007)	2,520
Municipal Finance Consolidation Act Bonds (Irrigation Program) (2)	1988	4,976	6.6-7.75	455	130 (2014)	4,804
Economic Development Bonds (Conservation Reserve Enhancement Program) (3)	1991A-B	7,380	10.0-11.2	1,160	285 (2000)	3,985
Municipal Finance Consolidation Act Bonds (4)	1991	6,234	4.75-6.5	466	294 (2005)	3,792
TOTAL BONDS PAYABLE		\$23,245		\$ 2,246		\$16,281
Conservation Reserve Enhancement Program (CRP Notes) (3)		3,307	9.0-9.92	766	455 (1999)	3,307
TOTAL BONDS/NOTES PAYABLE		<u>\$26,552</u>		<u>\$ 3,012</u>		<u>\$19,588</u>

- (1) These bonds, which may not aggregate more than \$75 million, are limited obligations of the Board of Investments payable solely from and secured by certain revenues and assets pledged pursuant to an Indenture of Trust. The bonds do not constitute a debt, liability or legal obligation of the State of Montana. However, if the balance in the "Capital Reserve Account A" falls below the indenture requirement, the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency. Principal payments (accrued interest to be added) are due each March 15. Series 1985J (\$665,000) and Series 1985B (\$775,000) were recalled on March 15 and December 15, 1988, respectively, without a gain or loss on extinguishment. Series 1985L (\$325,000) was recalled in March 1992, without a gain or loss on extinguishment. Series 1984B (\$510,000), Series 1984C (\$255,000), Series 1984D (\$970,000) and Series 1984E (\$420,000) were retired March 15, 1995, through the exercise of optional redemption provisions resulting from loan prepayments. Loss from early extinguishment totaled \$40,877.
- (2) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment levied against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.
- (3) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BAN's were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date.
- (4) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of 16 participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the state is pledged to the payment of principal or interest on the bonds.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

1996	1997	1998	1999	2000	2001+	Totals
\$ 4,586	\$4,527	\$3,861	\$2,936	\$3,022	\$9,763	<u>\$28,695</u>

(2) **Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds** - The Montana Board of Housing is authorized to have an aggregate of \$975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 1995, were as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments			Balance June 30, 1995
				FY 1996	In Year of Maturity		
Single Family I	1977A	\$ 21,470	4.5-8.0	\$ 950	\$ 1,850 (2009)	\$ 9,830	
	1977B	35,060	4.15-8.0	1,470	3,160 (2009)	16,490	
	1978A	13,600	6.0-6.5	570	1,115 (2010)	6,650	
	1987A	20,000	5.3-8.625	450	1,240 (2018)		
	1987B1-B2	20,000	6.25-9.0	160	780 (2019)	6,865	
	1988A1-A2	<u>19,999</u>	5.4-8.5	<u>315</u>	2,675 (2027)	<u>10,698</u>	
Subtotal		<u>\$130,129</u>		<u>\$ 3,915</u>		<u>\$ 59,093</u>	
Single Family II	1979A	\$100,000	5.1-6.6	\$ 3,475	\$ 7,700 (2011)	\$ 40,660	
	1983C	114,998	5.75-10.7	-	8,640 (2010)	19,738	
	1984A	75,002	7.0-10.375	-	13,680 (2010)	6,782	
	1985A	40,000	5.5-9.75	-	7,044 (2016)	11,714	
	1985B	74,997	5.7-9.75	-	1,165 (2017)	5,420	
	1992RA	22,520	5.65-6.5	-	10 (2033)	22,520	
	1994A	25,725	3.1-6.1	1,465	615 (2025)	23,795	
	1994B	40,815	3.8-6.9	2,410	1,300 (2025)	37,455	
	1994C	20,000	4.5-6.8	-	600 (2027)	20,000	
	1995A	<u>33,580</u>	4.75-6.55	<u>-</u>	1,105 (2027)	<u>33,580</u>	
Subtotal		<u>\$547,637</u>		<u>\$ 7,350</u>		<u>\$221,664</u>	
Single Family III	1988B1-B2	25,000	6.2-8.9	235	1,060 (2021)	12,380	
Single Family IV	1989A1-A2	25,000	7.0-9.2	205	1,340 (2021)	12,690	
Single Family V	1990A1-A2	25,000	6.2-8.525	270	1,885 (2022)	14,860	
Single Family VI	1990B1-B2	25,000	6.2-8.5	265	1,915 (2022)	15,640	
Single Family VII	1990C1-C2	25,000	6.55-8.95	255	1,625 (2022)	15,710	
Single Family VIII	1991A1-A2	25,000	5.2-8.275	310	1,920 (2023)	18,725	
Single Family IX	1991B1-B2	25,000	5.5-8.4	290	1,770 (2023)	19,185	
Single Family X	1992A1-A2	25,000	4.45-7.85	305	1,685 (2024)	20,675	
Multifamily	1978A	\$ 4,865	6.125	\$ 65	\$ 645 (2020)	\$ 4,305	
	1992	<u>9,725</u>	2.95-6.55	<u>160</u>	<u>150 (2024)</u>	<u>9,465</u>	
Subtotal		<u>\$ 14,590</u>		<u>\$ 225</u>		<u>\$ 13,770</u>	
TOTAL		<u>\$892,356</u>		<u>\$13,625</u>		<u>\$424,392</u>	
Unamortized bond premiums (net)						<u>35</u>	
TOTAL BOH BONDS PAYABLE (net)						<u>\$424,427</u>	

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

1996	1997	1998	1999	2000	2001+	Total
\$39,614	\$39,391	\$39,117	\$38,974	\$39,015	\$723,684	<u>\$919,795</u>

(3) Payroll Tax Bonds (Workers' Compensation Program) - State Compensation Insurance - Old - Component Unit
- The Board of Investments of the State of Montana issued \$174,595 million of bonds for the purpose of funding the State's liability and cost in administering and paying claims for injuries resulting from accidents, prior to July 1, 1990, that are subject to the Montana Workers' Compensation Act and the Occupational Disease Act of Montana. The bonds are limited obligations of the State of Montana payable solely from and secured by certain payroll tax revenues collected by the Department of Revenue of the State of Montana. Included in the issued bonds is \$32,500 million of Series 1993 variable rate demand bonds issued October 27, 1993, and maturing June 1, 2020. The bonds are subject to purchase on demand of the holder at a price equal to principal plus accrued interest on thirty days notice and delivery to the remarketing agent. The Montana Board of Investments (BOI) has entered into a Standby Liquidity Agreement to purchase any tendered bonds which are unable to be remarketed by the remarketing agent. The BOI is entitled to the same rights as any other bondholder, including the right to receive payments of principal and interest. As of June 30, 1995, \$32,500 million of the demand bonds are outstanding.

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments			Balance June 30, 1995
				FY 1996	In Year of Maturity		
Payroll Tax Bonds	1991	\$142,095	4.9-6.875	\$2,275	\$10,590 (2020)	\$134,115	
Less: Unamortized discount						<u>(1,786)</u>	
TOTAL BONDS PAYABLE (net)						<u>\$132,329</u>	

Debt service requirements (principal & interest) are as follows (in thousands):

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001+</u>	<u>Totals</u>
	\$11,321	\$11,318	\$11,318	\$11,318	\$11,320	\$226,402	<u>\$282,997</u>

H. **No-Commitment Debt** - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) **Montana Board of Investments (BOI)** - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1995, the BOI had issued industrial revenue bonds as follows (in thousands):

<u>Project</u>	<u>Date of Issue</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Farmers Union	August 1985	\$ 3,925	\$ 3,925
Bozeman Holiday Inn	October 1987	4,485	3,815
Colstrip	October 1989	60,800	60,800
BGI	July 1993	<u>118,345</u>	<u>118,345</u>
Total		<u>\$187,555</u>	<u>\$186,885</u>

(2) **Beginning Farm Loan Program** - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 1995, is as follows:

Jorgensen Project - issued \$81,600; outstanding \$42,981.

(3) **Montana Health Facility Authority (MHFA) - Component Unit** - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1995, the MHFA had issued bonds and notes as follows (in thousands):

<u>Project</u>	<u>Date of Issue</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
West Mont Home Health Services	June 1985	\$ 440	\$ 226
MHFA 1985 Pooled Loan Projects	December 1985	66,900	37,300
Community Provider Pooled Loans	October 1988	1,461	1,055
St. Peters Community Hospital	March 1989	9,365	7,905
Kalispell Regional Hospital	June 1990	14,475	12,925
Community Provider Pooled Loan	July 1990	5,858	5,136
Deaconess Medical Center (Series A)	February 1991	18,000	18,000
Deaconess Medical Center (Series B)	February 1991	18,000	18,000
Sisters of Providence	May 1991	56,535	50,510
Montana Deaconess Medical Center	June 1991	12,010	11,015
St. Peters Community Hospital	August 1991	7,000	6,200
Deaconess Medical Center	September 1991	32,650	30,250
Deaconess Medical Center	September 1991	7,000	4,990
Community Provider Pooled Loans	September 1991	3,944	3,553
Hospital Pooled Loans	August 1992	4,645	3,950
Richland Opportunities	January 1993	200	188
Bozeman Deaconess Foundation	June 1993	14,900	13,460
Holy Rosary Hospital	September 1993	18,275	18,080
Sisters of Charity	January 1994	50,915	49,180
Deaconess-Billings Clinic	January 1994	58,870	58,870
Residential Support Services	March 1994	50	48
Mineral Community Hospital	March 1994	39	30
Montana Developmental Center(1)	August 1994	13,100	13,100
Community Memorial Hospital	October 1994	570	570
St. John's Retirement Home	October 1994	2,000	2,000
North Valley Hospital (Series C)	October 1994	695	695
North Valley Hospital (Series D)	October 1994	1,310	1,310
St. John's Retirement Home	October 1994	<u>300</u>	<u>300</u>
Total		<u>\$419,507</u>	<u>\$368,846</u>

(1) During fiscal year 1995, MHFA loaned \$13,100,000 to the Department of Corrections for the Montana Developmental Center Project.

13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 1995, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 1995, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
General Special Revenue	\$ 12,454	\$ -	\$ 35,073	\$ 22,846	\$ 91,525	\$ 122,005	\$ 1,084	\$ -
State	38,380	2,508	57,822	60,586	174,271	59,551	-	1,530
Federal	-	45,398	9,874	12,607	214	4,345	-	72
Debt Service								
Coal Tax Bonds	-	-	2	6	964	65	-	-
Long-Range Building Program	-	-	32	1,780	15,545	48,782	28	-
Water Development	-	-	1	508	607	736	891	-
Highway Revenue Bonds	-	-	-	454	57,299	-	-	-
Transportation Bldg. Complex	-	-	-	56	567	-	-	-
Renewable Resource	-	-	-	201	-	201	-	-
Energy Bonds	-	-	48	179	319	131	-	-
Capital Projects								
Long-Range Building Program	-	-	183	79	2,729	815	-	28
Fed/Priv Construction Grants	-	-	-	6	-	-	-	-
Capital Land Grant	-	-	10	-	450	555	-	-
Enterprise								
Economic Dev. Bonds	-	-	-	10	-	-	-	-
Liquor Stores	-	-	1	1,659	(3)	15,383	-	-
Hail Insurance	-	-	-	19	-	26	-	-
State Lottery	-	-	2	2,470	-	8,594	-	-
Prison Ranch	75	-	80	47	-	-	-	-
Prison Industries	-	75	87	100	-	-	-	-
Uninsured Employers	-	-	10	21	-	-	-	-
Subsequent Injury	-	-	-	9	-	-	-	-
Montana Career Info. Sys.	-	-	5	4	-	-	-	-
Sec. of State Business Services	-	-	-	84	-	-	422	-
Historical Soc. Publications	-	-	2	21	51	-	-	-
W. Yellowstone Airport	-	-	-	3	22	-	-	-
Local Govt. Audits	-	70	1	56	146	-	-	-
Internal Service								
Highway Equipment	-	-	904	448	-	-	-	-
Employees' Grp. Ben.	-	-	214	27	-	-	-	-
ISD	-	-	1,223	343	97	-	-	-
MSU Group Insurance	-	-	-	8	-	-	-	-
Admin. Insurance	-	-	65	56	70	-	-	-
FWP Equipment	-	-	332	7	185	-	-	-
Motor Pool	-	-	103	40	-	-	-	-
Admin. Prop. & Supply	-	-	122	38	-	-	-	-
Publications & Graphics	-	-	325	81	-	-	-	-
Buildings & Grounds	-	-	24	47	43	51	-	-
Labor Central Services	-	-	422	420	-	-	-	-
Commerce Central Services	-	-	94	137	-	-	-	-
DHES Indirect Cost Pool	-	-	306	90	-	-	-	-
FWP Warehouse Inventory	-	-	13	1	-	-	-	-
Mail & Messenger	-	345	57	16	-	-	-	-
Investment Division	-	-	38	84	-	-	-	-
Aircraft Operation	-	-	20	23	108	-	-	-
Justice Legal	-	-	53	31	-	-	-	-
OPI Central Services	-	-	81	74	393	-	-	-
Personnel Training	-	-	18	8	-	-	-	-
Records Management	-	-	38	21	-	-	19	-
FWP Office Supply	-	-	-	2	-	-	-	-
Bad Debt	-	-	9	11	-	-	-	-
Admin. Legal	-	-	-	5	-	-	-	-
Local Govt Administration	-	-	8	7	-	-	-	-
Natural Gas Procurement	-	-	-	1	-	-	-	-
Admin. DP Unit	-	-	-	2	-	-	-	-
Expendable Trusts								
Unemployment Insurance	-	-	3	-	-	-	68	-

Within Primary Government and Component Units	Interfund Loans/Advances Receivable		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
Rural Development	-	-	-	3	-	-	-	-
Escheated Property	23	-	-	1	-	1,431	-	-
Rock Creek	-	-	-	4	-	-	-	-
Historical Society General	-	-	-	1	-	6	-	-
Nonexpendable Trusts								
Coal Tax Trust	-	-	5	16,111	-	38,116	-	-
Land Grants	-	23	244	10,524	1,431	40,966	-	-
Resource Indemnity	-	-	3	2,097	-	6,380	-	-
Parks Trust	-	-	-	153	-	922	-	-
Cultural Trust	97	-	-	82	-	500	-	-
Real Property	-	-	5	72	-	379	-	-
Noxious Weed Management	-	-	-	34	-	311	-	-
Thomas Teakle Trust	-	-	-	-	-	4	-	-
Pension Trusts								
PERS	11	-	2,162	2,114	-	-	-	-
Municipal Police	-	-	2,266	25	-	-	-	-
Firefighters Unified	-	-	4,167	20	-	-	-	-
Sheriffs	-	-	-	17	-	-	-	-
Highway Patrol	-	-	4	10	-	-	-	-
Judges	-	7	59	2	-	-	-	-
Game Wardens	-	4	-	4	-	-	-	-
Volunteer Firefighters	-	-	-	17	-	-	-	-
Agency								
Land Grant Interest	-	-	-	17	-	-	-	-
Performance Deposits	90	-	-	221	-	-	-	-
Central Payroll	-	-	21,430	-	-	-	-	-
Custodial Accounts	-	-	41	-	-	-	-	-
Unissued Warrants	-	-	70	1,777	-	-	-	-
Child Support Collections	-	-	228	849	-	-	-	-
Intergovernmental	-	2,700	1	10	-	-	-	-
Uncleared Collections	-	-	24	68	-	-	-	-
Bad Debts	-	-	1	81	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
Housing Authority	-	-	-	6	-	-	-	-
State Comp. Insurance - New	-	-	2,042	109	-	-	-	-
State Comp. Insurance - Old	-	-	108	1,974	(10)	-	-	-
Pension Trusts								
Teachers Retirement System	-	-	569	-	-	-	-	-
Higher Education								
Current Funds								
General Operating	300	-	4,989	3,892	1,249	1170	-	-
Designated	1,500	-	3,892	2,902	2,465	4,070	-	62
Auxiliary	-	-	843	1,880	599	9,061	-	80
Restricted	-	1,800	332	3,557	186	1,079	-	1
Fiduciary								
Student Loans	-	-	13	118	26	4	-	-
Endowments	-	-	-	-	948	7	-	-
Agency	-	-	4,816	2,197	-	-	-	-
Plant								
Unexpended	-	-	120	282	7,958	8,825	-	-
Renewal & Replacement	-	-	525	251	8,157	825	143	-
Retirement of Indebtedness	-	-	837	180	30,113	23,428	-	-
Totals	\$ 52,930	\$ 52,930	\$157,501	\$157,501	\$398,724	\$398,724	\$ 2,214	\$ 2,214
Between Primary Government and Component Units								
General								
Special Revenue								
State	352	-	27,906	-	986	-	65,254	-
Federal	9	-	378	-	-	-	-	-
Debt Service								
Long-Range Building Program	10	-	-	-	317	-	-	-

	Due From Comp. Units	Due To Primary Govt	Due To Comp. Units	Due From Primary Govt	Transfer From Comp. Units	Transfer From Primary Govt	Transfer To Comp. Units	Transfer To Primary Govt
Between Primary Government and Component Units								
Capital Projects			160					
Long Range Building								
Enterprise	-	-	-	-	-	-	-	-
Prison Industries	5	-	-	-	-	-	-	-
Internal Service								
ISD	234	-	10	-	-	-	-	-
MUS Group Insurance	370	-	-	-	-	-	-	-
Admin. Insurance	-	-	2	-	-	-	-	-
FWP Equipment	1	-	-	-	-	-	-	-
Motor Pool	1	-	-	-	-	-	-	-
Admin. Property & Supply	28	-	1	-	-	-	-	-
Publications & Graphics	163	-	-	-	-	-	-	-
Commerce Central Services	7	-	2	-	-	-	-	-
Mail & Messenger	1	-	-	-	-	-	-	-
Investment Division	17	-	-	-	-	-	-	-
Records Management	1	-	-	-	-	-	-	-
Nonexpendable Trusts								
Land Grants	-	-	523	-	-	-	-	-
Pension Trusts								
PERS	279	-	21	-	-	-	-	-
Agency								
Land Grant Interest	-	-	1	-	-	-	-	-
Employees Defer. Comp.	79	-	-	-	-	-	-	-
Central Payroll	988	-	-	-	-	-	-	-
Child Support Collections	5	-	-	-	-	-	-	-
Uncleared Collections	1	-	1	-	-	-	-	-
Bad Debts	1	-	12	-	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
Housing Authority	-	40	-	1	-	-	-	-
Health Facilities Authority	-	5	-	-	-	-	-	-
State Comp. Ins. - New	-	893	-	10	-	-	-	-
State Comp. Ins. - Old	-	114	-	27,604	-	1,303	-	50,091
Pension Trusts								
Teachers Retirement System	-	30	-	27	-	-	-	-
Higher Education								
Current Funds								
General Operating	-	677	-	13	-	-	-	111,455
Designated	-	338	-	108	-	-	-	-
Auxiliary	-	25	-	222	-	-	-	-
Restricted	-	22	-	735	-	-	-	6
Fiduciary								
Student Loans	-	-	-	1	-	-	-	-
Endowments	-	-	-	-	-	-	-	6
Agency	-	804	-	91	-	-	-	-
Plant								
Unexpended	-	22	-	126	-	-	-	26
Renewal and Replacement	-	4	-	97	-	-	-	22
Retirement of Indebtedness	-	-	-	144	-	-	-	-
Totals	\$ 2,974	\$ 2,974	\$ 29,179	\$ 29,179	\$ 1,303	\$ 1,303	\$ 161,606	\$ 161,606

14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 1995, (in thousands):

	Primary Government	Deficit
Enterprise Fund		
Department of Agriculture		\$ (176)
Internal Service Fund		
Administration Insurance		(13,182)
Justice Legal		(23)
Bad Debt		(10)
Administration - Legal		(15)
Local Government Admin		(32)
Admin. DP Unit		(4)
Total Fund Deficits - Primary Government		\$ (13,442)

Component Units

Proprietary Fund Type

State Comp. Ins. (Old Fund)

\$413,938)

Higher Education Funds

General Operating Subfund

(15,518)

Total Fund Deficits - Component Units

\$429,456

The deficit retained earnings in the Administration Insurance Fund and the State Compensation Insurance Fund-Old are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue trust reserved fund balance is attributed to the Fish, Wildlife and Parks Mitigation Trust Account within the State Special Revenue Fund.

The Coal Tax Trust reserved fund balance in the Nonexpendable Trust Fund consists of the following (in thousands): Permanent Coal Tax Trust \$520,364, Treasure State Endowment Fund \$31,793 and the School Bond Contingency Fund \$2,152. All other Nonexpendable Trust Fund balances, \$462,641, are Reserved for Trust Principal.

16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 1995, is as follows (in thousands):

	<u>Economic Development Bonds</u>	<u>Liquor Stores</u>	<u>Hail Insurance</u>	<u>State Lottery</u>	<u>Other Enterprise*</u>	<u>Total Enterprise</u>
Operating Revenues:						
Charges for Services	\$ 62	\$ 40,596	\$ -	\$ 32,762	\$ 7,728	\$ 81,148
Investment Earnings	510	-	283	201	268	1,262
Contrib./Premiums	-	-	2,025	-	18	2,043
Grants/Contracts/Donations	-	-	-	-	12	12
Taxes	-	10,259	-	-	-	10,259
Other Revenues	2,525	63	-	-	4,181	6,779
Operating Expenses:						
Depreciation	4	165	1	61	376	610
Amortization	-	-	-	-	6	6
Other	<u>3,112</u>	<u>34,902</u>	<u>907</u>	<u>24,310</u>	<u>10,515</u>	<u>73,746</u>
Operating Income (Loss)	<u>(9)</u>	<u>15,851</u>	<u>1,400</u>	<u>8,592</u>	<u>1,307</u>	<u>27,141</u>
Nonoperating Revenues (Expenses)						
Oper. Trans. In (Out)	-	(50)	-	2	6	(42)
Net Income (Loss)	<u><u>\$ (9)</u></u>	<u><u>\$ 415</u></u>	<u><u>\$ 1,374</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,532</u></u>	<u><u>\$ 3,312</u></u>
Current Assets	\$ 2,768	\$ 9,821	\$ 7,174	\$ 4,989	\$ 13,004	\$ 37,756
Current Liabilities	(1,290)	(7,535)	(894)	(4,982)	(906)	(15,607)
Net Working Capital	<u><u>\$ 1,478</u></u>	<u><u>\$ 2,286</u></u>	<u><u>\$ 6,280</u></u>	<u><u>\$ 7</u></u>	<u><u>\$ 12,098</u></u>	<u><u>\$ 22,149</u></u>
Total Assets	\$ 42,730	\$ 11,085	\$ 7,182	\$ 5,386	\$ 19,841	\$ 86,224
Total Liabilities	40,840	7,930	1,553	5,147	2,344	57,814
Fund Equity	<u><u>\$ 1,890</u></u>	<u><u>\$ 3,155</u></u>	<u><u>\$ 5,629</u></u>	<u><u>\$ 239</u></u>	<u><u>\$ 17,497</u></u>	<u><u>\$ 28,410</u></u>
Long-Term Obligations	\$ 39,550	\$ 395	\$ 659	\$ 165	\$ 1,068	\$ 41,837
Cur. Yr. Capital Cont.	\$ -	\$ -	\$ -	\$ 238	\$ -	\$ 238
Acquisition of Fixed Assets	\$ -	\$ 171	\$ 2	\$ 45	\$ 532	\$ 750
Disposal of Fixed Assets	\$ 1	\$ 123	\$ -	\$ 37	\$ 202	\$ 363

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.
2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Stores). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.
3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).

4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987.

* Other Enterprise is composed of the following funds (listed by administering agency):

<u>Department of Agriculture</u> Department of Agriculture	<u>Fish, Wildlife and Parks</u> FWP Snowgroomer Rental	<u>Secretary of State</u> Business Services
<u>Department of Commerce</u> Local Government Audits	<u>Montana Historical Society</u> Historical Society Publications	<u>Department of Corrections</u> <u>and Human Services</u> Prison Ranch Industries Women's Prison Industries Swan River Vocational Training
<u>Department of Transportation</u> West Yellowstone Airport	<u>Department of Labor and</u> <u>Industry</u> Montana Career Infor. System Subsequent Injury Uninsured Employers	

17. CONTRIBUTED CAPITAL

During fiscal year 1995, contributed capital changed by the following amounts (in thousands):

	<u>PRIMARY GOVERNMENT</u>	<u>COMPONENT UNITS</u>
	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>
Beginning Balance - July 1, 1994	\$ 3,252	\$ 5,627
Additions:		
Contrib. Capital Transfers-in	238	1,734
Deletions:		
Contrib. Capital Transfers-out	—	(2,018)
Ending Balance - June 30, 1995	<u>\$ 3,490</u>	<u>\$ 5,343</u>
		<u>\$ 11,584</u>

18. NONEXPENDABLE TRUST FUNDS' INVESTMENT INCOME

Investments are recorded in Nonexpendable Trust Funds using the full accrual basis of accounting. However, certain investment earnings attributable to these trusts are transferred elsewhere, as summarized below:

<u>Nonexpendable Trust Fund</u>	<u>Reporting of Investment Earnings</u>
Coal Tax Trust	Permanent Trust Accounting Entities - Investment Earnings are distributed eighty-five percent to the General Fund and fifteen percent to the Public School Equalization Account in the State Special Revenue Fund for fiscal year 1995. Treasure State Endowment Accounting Entity - A specified amount may be transferred monthly to the State Special Revenue Fund to cover administrative costs, grants, and loans to local governments for infrastructure projects. In 1995, transfers of \$448,466 were made.
Resource Indemnity	Resource Indemnity Tax investment earnings are distributed to the State Special Revenue Fund as follows: At the beginning of each biennium, \$175,000 to the Environmental Contingency Account; \$50,000 to the Oil and Gas Damage Mitigation Account; \$1,025,000 to the Renewable Resource Loan and Grant Account; \$2,200,000 to the Reclamation and Development Grant Account; \$250,000 to the Water Storage Account; (beginning in FY95) \$240,000 to the Renewable Resource Loan and Grant Account; and the remaining investment earnings are distributed thirty-eight percent to the Renewable Resource Loan and Grant Account; fifteen percent to the Hazardous Waste/Comprehensive Environmental Response, Compensation, and Liability Act Account; forty-one and one-half percent to the Reclamation and Development Grant Account; and five and one-half percent to the Environmental Quality Protection Account. The beginning of a biennium is the even numbered fiscal year; therefore, the fixed amounts noted above were not distributed in FY95 except as specified.
Parks Trust	Investment earnings are distributed to the State Special Revenue Fund for the maintenance of parks by the Department of Fish, Wildlife and Parks.
Cultural Trust	Investment earnings are distributed to the State Special Revenue Fund for cultural and aesthetic projects administered by the Montana Arts Council.
Land Grants	Ninety-four percent of investment earnings are transferred to the State Special Revenue Fund for the Office of Public Instruction to distribute to public schools; five percent is distributed to Higher Education Units (Current and Plant Funds);

	and one percent to the Department of Corrections & Human Services (General Fund and State Special Revenue Fund).
Real Property	Investment earnings are transferred to the State Special Revenue Fund for use by the Department of Fish, Wildlife and Parks to operate, maintain and develop its real property.
Noxious Weed Management	Investment earnings are transferred to the State Special Revenue Fund for noxious weed management projects.
Thomas Teakle	Investment earnings are transferred to the State Special Revenue Fund for the Montana Historical Society's library acquisitions.

19. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 66% of the Regents' outstanding loan volume (\$400,725,000) is held by MHESAC. Lewis & Clark County owns the building which houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, MHESAC has the option to purchase the building. OCHE pays MHESAC for its share of various costs such as personnel costs for employees of MHESAC who perform services that are of direct benefit to the State; equipment leases; computer maintenance costs; utilities and other shared operating expenses. The total amount of these expenses for fiscal year 1995 amounted to \$321,177. MHESAC employees are allowed to participate in the University System group insurance plan and MHESAC also reimburses OCHE for services such as telephones, postage and computer supplies. During fiscal year 1995 MHESAC paid OCHE a total of \$399,582.

There is a foundation affiliated with each university and college unit which solicits contributions and manages those funds for the benefit of that unit. Each foundation is a separate legal entity; each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately \$594,000 in fiscal year 1995. In return the universities received from their foundations approximately \$8,039,000 during fiscal year 1995 for scholarships and academic/institutional support.

20. CONTINGENCIES

A. Litigation - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The Crow Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance and gross proceeds taxes are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip", which lies roughly between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserves falling within these categories has not been precisely determined. The taxes were alleged to be invalid under a variety of theories, of which the most prominent were that the state taxes conflict with federal policy by preventing the marketing of Crow coal and infringe on tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes were invalid, the Tribe sought restitution for an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc. (Westmoreland), the only company currently mining coal claimed by the Tribe, together with the interest which accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid.

In January 1983, the court ordered Westmoreland's future severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to the coal mined on the ceded strip since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of \$5.407 million in 1976 to a high of \$7.078 million in 1979.

In June 1987, the Ninth Circuit Court of Appeals ruled that Montana is preempted from applying its severance and gross proceeds taxes on coal within the ceded strip held in trust for the Crow Tribe and on coal mined on the reservation. In August 1987, the State docketed an appeal of the decision to the United States Supreme Court, and in January 1988, that Court summarily affirmed the Court of Appeals' judgment.

As a result of the Supreme Court's affirmance, two principal issues remained in the case, one of which has been resolved. The first issue involved the appropriate disposition of the escrowed moneys, to which the State disclaimed any interest after the Supreme Court's decision. The district court concluded in September 1988 that these moneys should be paid to the United States in trust for the Tribe. The escrowed funds totaling \$30.1 million were distributed in May 1989 to the United States.

The second issue involved tax monies paid by Westmoreland to the State but not escrowed. Their amount, exclusive of interest, is approximately \$47 million. The Tribe and the United States, which had intervened on the Tribe's behalf in 1983, claimed those taxes under a restitution theory. They additionally sought prejudgment interest on that amount which, as of March 31, 1994, was estimated at \$214.1 million. Trial on their claim was held in April and May 1994, and

in November 1994, the district court ruled in the State's favor. That ruling is presently on appeal before the Ninth Circuit Court of Appeals. The State believes the district court's decision is correct. Nevertheless, the issues raised by the Tribe and United States' claim are novel, and their resolution cannot be predicted with certainty.

The Tribe and the United States additionally sought leave to amend their complaints in April 1993 to allege damages arising from loss of possible production under a coal lease with Shell Oil Company. They estimated those damages at \$250.4 million as of March 31, 1994. The district court denied the requested amendment in July 1993 and again in February 1994. The court, however, addressed that claim in its November 1994 decision and rejected it. The Tribe has raised that aspect of the court's decision in the current appeal before the Ninth Circuit. The State believes the district court's denial of leave to amend the Tribe's and the United States' complaints was proper and that, in any event, the court's rejection of the claim in its November 1994 decision was correct.

B. Federal Contingencies:

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act of 1984. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 1995.

USDA Food Stamp Coupons/Commodities - The State no longer has custodial responsibility for USDA food stamp coupons. The Department of Social and Rehabilitation Services has contracted with Sacramento Services Development Corporation (SSDC) in Sacramento, California, to mail-issue 100% of all food stamps. SSDC is responsible for the storage of all food stamp coupons and carries adequate insurance to cover the State's potential losses. In fiscal year 1995, Montana issued \$57,290,523 in food stamp coupons; Montana's portion of the food stamps held by SSDC at June 30, 1995, is estimated to be \$28,207,605.

In fiscal year 1995, the State distributed \$6,578,140 in commodities. The value at June 30, 1995, of commodities stored in the State's warehouses is \$1,878,487 for which the State is liable in the event of loss.

Social Security - The Social Security Administration (SSA) has assessed the State for the alleged failure to withhold and forward social security contributions for part-time employees for the years 1984 through 1986. The matter has been fully submitted for a final administrative decision. The amount at issue is estimated to be \$2.5 million plus interest of approximately \$1 million which continues to accrue at a rate of 6% per annum. Of the principal amount, \$720,000 is estimated to be the initial liability of the State's central payroll; a proportional amount of the interest figure provided would be the State's responsibility. The balance of the amount owing is the initial responsibility of various political subdivisions. The portion of that amount that the State might have to pay because of the current nonexistence of some of those political subdivisions, should not be substantial, approximately \$5,000.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 1995, the following assessments (by fund type) were outstanding (in thousands):

<u>Taxes</u>	<u>General</u>	<u>Special Revenue</u>	<u>Debit Service</u>	<u>Nonexpendable Trust</u>
Corporation	\$ 2,442	\$ -	\$ 182	\$ -
Coal Severance	3,454	7,412	213	11,363
Oil & Gas	3,157	-	-	-
Resources Indemnity	-	173	-	220
Totals	\$ 9,053	\$ 7,585	\$ 395	\$ 11,583

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed 100% to the General Fund.

21. SUBSEQUENT EVENTS

On July 13, 1995 the Montana Supreme Court upheld a lower court's judgement against the Montana School for the Deaf and Blind for wages due certain school employees. Damages and costs of litigation are estimated to be \$457,000 which will be paid out of the General Fund.

On July 24, 1995, the State Compensation Insurance Fund applied \$21,495,949 of surplus payroll tax collections that had accumulated in the Old Fund to defease a portion of the Series 1991 Payroll Tax Bonds issued by the State Board of Investments to pay unfunded liabilities of the Old Fund. The State Fund defeased \$20,880,000 of the 6.875 percent term bonds due on June 1, 2020.

On September 13, 1995, the Board of Housing (Housing Authority) issued \$88,000,000 in Single Family Program Bonds, Series 1995B. On October 16, 1995, a portion of the proceeds of these bonds will be used to optionally redeem \$40,660,000 of the 1979 series A bonds.

In September 1995, the Board of Regents of the Montana University System authorized the University of Montana to proceed with the planning for the issuance of Series C 1995 Revenue Bonds of which \$35,600,000 would be used for the acquisition, construction, repair, replacement, renovation, and improvement of certain facilities and properties at the University. Final authorization must be obtained from the Board of Regents prior to issuance of these bonds.

On October 3, 1995, the Board of Investments issued \$7,500,000 in Municipal Finance Consolidation Act Bonds for the INTERCAP Revolving Program.

On October 18, 1995, the State issued \$101,200,000 in Tax and Revenue Anticipation Notes, Series 1995, due June 30, 1996. The proceeds of the Notes will provide cash to support expenditures from the general fund, pending the receipt of taxes and revenues, for the fiscal year ending June 30, 1996.

On October 19, 1995, the Montana Health Facility Authority (MHFA) issued \$5,650,000 in Health Care Facilities Revenue Bonds, Series A. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State.

